Great Ajax Corp.
Form 10-K
March 08, 2018

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

001-36844
(Commission file number)

GREAT AJAX CORP.
(Exact name of registrant as specified in its charter)

Maryland	47-1271842
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
9400 SW Beaverton-Hillsdale Hwy, Suite 131 Beaverton, OR 97005	97005
(Address of principal executive offices)	(Zip Code)

503-505-5670
Registrant’s telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	New York Stock Exchange
7.25% Convertible Senior Notes due 2024	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in PART III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Emerging Growth Company ý	

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

The aggregate market value of the shares of common stock held by non-affiliates of the registrant as of June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $248,037,166 based on the price per share of $13.98, the closing price on June 30, 2017.

As of March 5, 2018, 18,685,248 shares of the registrant's common stock, par value $0.01 per share, were outstanding, which includes 624,106 operating partnership units that are exchangeable on a one-for-one basis into shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement with respect to its 2018 Annual Meeting of Stockholders are incorporated by reference into this annual report on Form 10-K in response to Part III, Items #10, 11, 12, 13 and 14.

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In this annual report on Form 10-K ("annual report"), unless the context indicates otherwise, references to "Great Ajax," "we," "the Company," "our" and "us" refer to the activities of and the assets and liabilities of the business and operations of Great Ajax Corp.; "Operating Partnership" refers to Great Ajax Operating Partnership L.P., a Delaware limited partnership; "Manager" refers to Thetis Asset Management LLC, a Delaware limited liability company; "Aspen Capital" refers to the Aspen Capital group of companies; "Aspen" and "Aspen Yo" refers to Aspen Yo LLC, an Oregon limited liability company that is part of Aspen Capital; and "the Servicer" and "Gregory" refer to Gregory Funding LLC, an Oregon limited liability company and our affiliate, and an indirect subsidiary of Aspen Yo.

PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this annual report constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "shoul "would" or the negatives of these terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in this annual report, including those set forth under "Item 1A. Risk Factors," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 1. Business";
- our ability to implement our business strategy;
- difficulties in identifying re-performing loans ("RPLs"), small balance commercial mortgage loans ("SBC loans") and properties to acquire; the impact of changes to the supply of, value of and the returns on RPLs and SBC loans;
- our ability to compete with our competitors;
- our ability to control our costs;
- the impact of changes in interest rates and the market value of the collateral underlying our RPL and non-performing loan ("NPL") portfolios or of our other real estate assets;
- our ability to convert NPLs into performing loans, or to modify or otherwise resolve such loans;
- our ability to convert NPLs to properties that can generate attractive returns either through sale or rental;
- our ability to obtain financing arrangements on favorable terms, or at all;
- our ability to retain our engagement of our Manager;
- the failure of the Servicer to perform its obligations under the Servicing Agreement;
- general volatility of the capital markets;
- the impact of adverse real estate, mortgage or housing markets and changes in the general economy;
- changes in our business strategy;
- our failure to qualify or maintain qualification as a real estate investment trust ("REIT");
- our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act (the "JOBS Act");
- our failure to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act"); and
- the impact of adverse legislative or regulatory tax changes.

Item 1. Business

Overview

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Great Ajax Corp. is a Maryland corporation that is organized and operated in a manner intended to allow us to qualify as a REIT. We primarily target acquisitions of RPLs, including residential mortgage loans and SBC loans. RPLs are mortgage loans on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. The SBC loans that we intend to opportunistically purchase or originate are expected to have a principal balance of up to $5.0 million and be secured by multi-family residential and commercial mixed use retail/residential properties on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. Additionally, we may invest in single-family and smaller commercial properties directly either through the occurrence of a foreclosure on a loan in our mortgage portfolio or through a direct acquisition. Historically, we have made targeted investments in NPLs. NPLs are loans on which the most recent three payments have not been made. We may acquire NPLs from time to time, either directly or with joint venture partners, and will continue to manage the NPLs on our balance sheet.

Our RPLs and NPLs are serviced by our Servicer, an affiliated entity. We seek to acquire loans at discounts to the unpaid principal balance ("UPB") of the loan and significant discounts to our estimates of the value of the underlying real estate. Unlike other loan acquirers, who often rely on pooled estimates in analyzing and pricing portfolios, our Manager uses proprietary models and data produced by its affiliates to evaluate individual assets and determine cities, neighborhoods and properties that it believes will experience home price appreciation (“HPA”). These proprietary analytics have inputs for economic and demographic data that include changes in unemployment rates, median household incomes, housing starts, crime rates, education, electoral participation and other variables that we believe closely correlate to property values. The proprietary models predict probabilistic future cash flows for each loan we seek to acquire. Factors affecting our cash flow projections include resolution method, resolution timeline, foreclosure costs, rehabilitation costs and eviction costs. The database for these proprietary models contains foreclosure timelines on an individual county basis and, in some instances, also on an individual judge basis. We believe that these proprietary models permit us to acquire loans at prices we and the Manager believe represent a discount to UPB and current property values in non-auction purchases.

We generally securitize our mortgage loans and retain subordinated securities from our securitizations. We also hold “real estate-owned” properties (“REO”) acquired upon the foreclosure or other settlement of our owned NPLs, as well as through outright purchases. Our REO consists principally of one to four unit homes, although we also may own smaller commercial properties. Our resolution methods are tailored to each loan, based on our Servicer’s detailed analytics, and include, among others, loan modification, forbearance agreements, foreclosure, short sale and deed-in-lieu of foreclosure. In the event of foreclosure, our Manager determines, in part based on the information obtained from the Servicer regarding historical experience, whether to seek to sell any REO asset, including offering mortgage financing to the purchaser, or to hold the multi-family and to a lesser extent, single family, REO as rental property. We conduct some of these activities through our taxable REIT subsidiaries (“TRS”). As part of our integrated approach, the Servicer focuses on understanding each borrower’s situation and working closely with the borrower to determine the most appropriate resolution for both parties. We believe that purchasing RPLs at discounts to UPB and significant discounts to underlying property values, as well as working, through our Servicer, to support continuing or new payments by borrowers, allows us to achieve our targeted returns. However, if actual results differ from our assumptions, particularly if the value of the underlying properties were to decrease significantly, we may not achieve our targeted returns.

We are externally managed by our Manager, an affiliated entity. We own a 19.8% equity interest in our Manager through a TRS. We also own a 4.9% equity interest in the parent company of our Servicer through a TRS. As of March 5, 2018, our Manager and the parent of our Servicer, including shares held through consolidated subsidiaries, owned 405,607 and 320,605 shares of our common stock, respectively. We believe that our Manager’s interest and the ownership interest held by the parent of our Servicer, combined with our paying a percentage of the base management fee to our Manager in shares of our common stock, align our Manager’s and our Servicer's interests with our interests and those of our stockholders. See “— The Management Agreement.”

Strategy

We are continuing the opportunistic strategy developed by our Manager’s management team in a REIT structure that we believe provides us access to capital and allows us to compete for more significant investment opportunities in the evolving mortgage markets. This strategy enables us to generate attractive current yields and risk-adjusted total returns for our stockholders. We intend to continue to distribute substantially all of our REIT taxable income to our stockholders in accordance with applicable REIT qualification requirements. Our strategy consists of:

- constructing and owning a portfolio of RPLs secured by single-family residences at discounts to UPB and significant discounts to underlying property values;

- expanding our acquisition of RPLs and SBC loans and direct acquisitions of smaller multi-family and mixed-use commercial properties;
- concentrating our investments in geographic areas, cities and neighborhoods with certain demographic and economic trends and attributes;
- working, through our Servicer, to (1) support the continued performance of RPLs; (2) convert a portion of our NPLs to performing status; (3) determine the optimal loss mitigation strategy on an asset-by-asset basis; and (4) manage the process and timelines for converting NPLs to sale or rental REO;
- when economically efficient, securitizing our RPL portfolio to create long-term, fixed rate, non-recourse financing, while retaining one or more tranches of any subordinated securities we may create; and
- opportunistically mitigating our interest rate and prepayment risk, including potentially, through the use of a variety of hedging instruments.
- working through joint ventures with third party investors to acquire pools of mortgage loans and other mortgage related assets, which may create value additive opportunities for us, our Manager (an affiliated entity), and our Servicer (an affiliated entity). Depending upon the needs, liquidity and risk profiles of our third party investors, the criteria for asset acquisitions by our joint ventures may differ somewhat from the criteria we would use for asset acquisitions intended exclusively for our own portfolio.

We believe that purchasing RPLs at a discount to UPB and a significant discount to underlying property values, as well as working, through our Servicer, to support continuing or new payments by borrowers, allows us to achieve our targeted returns. However, if actual results differ from our assumptions, particularly if the value of the underlying properties were to decrease significantly, we may not achieve our targeted returns.

We price each loan portfolio on a loan-by-loan basis and focus on acquiring loans with the underlying property located in or in close proximity to urban centers where we believe that HPA will outpace the national market. We use proprietary models to predict probabilistic future cash flows for each loan and generate cash flow projections. Factors affecting our cash flow projections include resolution method, resolution timeline, foreclosure costs, rehabilitation costs and eviction costs. Some of the variables used are the specific location of the underlying property, loan-to-value ratio, property age and condition, change and rate of change of borrower credit rating, servicing notes, interest rate, monthly payment amount and neighborhood rents. For loan pool acquisitions, we target a 6.5–10% return on RPLs, including SBC loans, and a 10-17% return on NPLs, without taking into account or giving effect to any borrowings, which we refer to as an unlevered return. We analyze each RPL for re-default probability, loan-to-value ratio, interest rate and structure of the loan and the likely resolution method in the event the loan stops performing. Each RPL is analyzed through both a performing and non-performing path.

While we expect to purchase loans nationwide, we target urban centers (including densely populated suburbs) because we believe that an increasing number of families and young professionals prefer to live in areas that are in close proximity to employment centers, public transportation and retail and other amenities that are typically more common in such areas, creating liquidity and predictability, which we believe, provides greater potential for HPA. By focusing on urban centers and targeted densely populated suburbs we are able to more efficiently manage our portfolio and scale our high-touch loan servicing platform. Our Manager has compiled data that suggests that HPA can vary significantly from neighborhood to neighborhood even within the same city. Our Manager's proprietary analytics include inputs for economic and demographic data that includes unemployment rates, housing starts, crime rates, education, electoral participation and other variables that we believe closely correlate to property values. These analytics help us determine cities, neighborhoods and properties that we believe will experience HPA.

We seek to build clusters of loans backed by collateral in certain markets. These markets include, but are not limited to, Phoenix, Arizona; Los Angeles and San Diego, California; Miami, Ft. Lauderdale, West Palm Beach, Orlando and Tampa, Florida; Atlanta, Georgia; New York and New Jersey metropolitan area; Houston and Dallas, Texas; Portland, OR; and Maryland and Virginia near Washington, DC. In addition to its experienced servicing staff, our Servicer has contracted with local experts in areas where it services a significant number of loans that provide local area market intelligence, monitor properties and can manage rehabilitation projects for REO or repairs for rental properties. We believe having affiliated local experts and a centralized management team provides us a competitive advantage and leads to more informed decision-making and better execution.

The following provides further detail as to our RPL and SBC loan acquisition strategy.

- We believe that buying RPLs is more efficient and lower risk than acquiring REO. We purchase RPLs at a discount from UPB and a significant discount to underlying property value, but the borrower is required to pay interest on the full UPB, leading to a higher current yield. The borrower is also responsible for property taxes, insurance and

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maintenance, which are all costs that the owner of the REO would otherwise have to pay. In addition, to the extent that the UPB exceeds the home's or commercial property's value, the lender will benefit from all price appreciation, net of carrying and liquidation costs, until such time as the price exceeds the UPB plus any arrearages and expenses. While the return to the mortgage loan owner is thus capped, there is also risk mitigation if the REO value decreases, until the value is less than the price the lender paid for the loan.

- The histories of distressed mortgage loans often provide more insight into the likelihood of default than acquiring newly originated mortgage loans, which should allow our Manager to model default risk and price acquisitions more accurately.
- If an RPL becomes an NPL, we, through the Servicer, have a number of ways to mitigate our loss. These loss mitigation techniques include working with the borrower to achieve performance, including through modification of the mortgage loan terms as well as short sale, assisted deed-in-lieu of foreclosure, assisted deed-for-lease, foreclosure and other loss mitigation activities. With each REO acquired, we assess the best potential return, typically either through rental, sale with carryback financing, which we believe will increase the potential pool of purchasers, or sale without our financing the purchase.
- We believe that we are able to purchase mortgage loans at lower prices than REO properties because sellers of such loans are able to avoid paying the costs typically associated with sales of real estate, whether single-family residences or smaller commercial properties, such as broker commissions and closing costs of up to 10% of gross proceeds of the sale. We believe this motivates the sellers to accept a lower price for the RPLs and SBC loans than they would if selling REO directly.

Our comprehensive loan and property history database and data tracking lead to a deep understanding of our markets. This understanding, coupled with our long-term relationships with loan sellers, we believe allows us to purchase loans at a discount to UPB and a significant discount to current property values. Our database contains foreclosure timelines on an individual county basis and in some instances, also on an individual judge basis. In addition to resolution timeline data, we track data by state, MSA (Metropolitan Statistical Area) and zip code basis regarding crime rates, education, electoral participation and other variables that we believe closely correlate with property values.

Our strategy is adaptable to changing market environments, subject to compliance with the income and other tests that allows us to continue to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes and to maintain our exclusion from regulation as an investment company under the Investment Company Act. As a result, our acquisition and management decisions depend on prevailing market conditions, and our targeted investments may vary over time in response to market conditions. We may change our strategy and policies without a vote of our stockholders. Moreover, although our independent directors will periodically review our investment guidelines and our portfolio, they generally will not review particular proposed asset acquisitions or asset management decisions. See "— Investment Guidelines."

Our Portfolio

The following table outlines the carrying value of our portfolio of mortgage loan assets and single-family and smaller commercial properties as of December 31, 2017 and 2016 ($ in millions):

	As of December 31,	
Our portfolio at year-end:	2017	2016[(1)]
RPL Residential Mortgage Loans	$1,190.0	$803.7
RPL SBC Loans	8.6	7.7
Originated SBC Loans	11.6	2.5
NPLs	43.3	55.2
REO	26.2	25.2
Total Real Estate Assets	$1,279.7	$894.3

(1) These values have been presented net of borrower advances reclassified during 2017 to Prepaid expenses and other assets.

We closely monitor the status of our mortgage loans and, through our Servicer, work with our borrowers to improve their payment records.

Investment Process

We value our portfolio on a loan-by-loan and property-by-property basis. Purchase prices generally are at a discount to UPB and a significant discount to current property value, based in part on at least two unaffiliated broker price opinions ("BPOs") for every property. Employees and agents of our Manager periodically visit the exteriors of properties prior to completion of due diligence and the information from such visits is incorporated into final loan pricing negotiations with the seller.

We estimate our resolution timelines using a combination of proprietary data, modeling and historical trends. Our analysis of the resolution or foreclosure timeline for a mortgage loan is based on its history to date with added time cushion. We have developed a robust database of foreclosure timelines on an individual county basis and in some instances, on an individual judge basis. We also use statistical models to determine the expected modification success probability and the expected short sale success probabilities. We have an extensive due diligence process to validate data consistency, accuracy and compliance and perform document and third-party lien reviews on all loan files.

The most important factors in analyzing RPLs are the level and duration of continued re-performance, the potential for HPA, prevailing interest rates and the potential for economic growth and the availability of financing for the borrower. The analysis of all mortgage loan and REO acquisitions is also affected by the supply of existing housing and rate of housing starts as higher construction costs, particularly if replacement cost is greater than market price, can slow the rate of starts and new housing inventory and lead to rising rental rates relative to mortgage payments. We evaluate geographic location priorities based on many different factors and data including, but not limited to, employment rates and the local mismatch between employment rates and housing supply, demographic shifts, cost of new construction, social services, education, crime and voting participation rates.

The following graphic outlines the process the Manager generally uses for assessing RPL and NPL portfolio purchase opportunities:

Investment Guidelines

All of our investment activities are conducted by our Manager on our behalf pursuant to the Management Agreement. Our principal objective is to generate attractive risk-adjusted returns for our stockholders over the long-term through dividends and capital appreciation.

Our Board of Directors has adopted an investment policy designed to facilitate the management of our capital and assets and the maintenance of an investment portfolio profile that meets our objectives. The investment policy will help the Board of Directors oversee our efforts to achieve a return on assets consistent with our business objectives and to maintain adequate liquidity to meet any financial covenants and regular cash requirements.

Any purchase of RPLs, SBC loans or of properties is analyzed by the portfolio acquisition group. Our Manager may, without a vote of our stockholders, consider any investment consistent with our investment policy. We may also acquire single-family homes, smaller multi-family residential properties, smaller mixed use retail/residential/office properties and smaller commercial properties either upon foreclosure or other settlement of our owned NPLs or in the market and opportunistically either sell such property, including offering mortgage loans to the purchasers, or holding it as a rental for the short or long term.

Our Manager is authorized to finance our investment positions through repurchase agreements, secured debt and other financing arrangements provided such agreements are negotiated with counterparties approved by the investment committee. Our Manager believes it is critical to structure any financing facilities to significantly limit the risk to our business from falling collateral values and margin calls. We fund many of our asset acquisitions with non-recourse securitizations in which the underlying collateral is not marked-to-market and employ repurchase agreements without the obligation to mark-to-market the underlying collateral to the extent available. We may also hedge our interest rate exposure on our financing activities through the use of interest rate swaps, forwards, futures and options, subject to prior approval from the investment committee, though no such hedges are currently in use. We also acquire loans and other real estate assets through joint ventures.

Our Board of Directors has adopted the following additional investment guidelines:

- investments and acquisitions that exceed 15% of our equity from time to time must be approved by the Investment Supervisory Committee of our Board of Directors;
- no investment shall be made that would cause us to fail to qualify as a REIT for U.S. federal income tax purposes;
- no investment shall be made that would cause us to be regulated as an investment company under the Investment Company Act;
- our assets will be invested within our target assets, as described above; and
- until appropriate investments can be identified, we may pay off short-term debt or invest the proceeds of any offering in interest-bearing, short-term investments, including funds that are consistent with qualifying and maintaining our qualification as a REIT.

Our investment policy and guidelines may be changed from time to time by our Board of Directors without the approval of our stockholders.

Broad Investment Policy Risks

Our investment policy is very broad and, therefore, our Manager has great latitude in determining the types of assets that are appropriate investments for us, as well as the individual investment decisions. In the future, our Manager may make investments on our behalf with lower rates of return than those anticipated under current market conditions and/or may make investments with greater risks to achieve those anticipated returns. Our Board of Directors periodically reviews our investment policy and guidelines and our investment portfolio but does not review or approve each proposed investment by our Manager unless it falls outside our previously approved investment policy or constitutes a related party transaction. In conducting periodic reviews, our Board of Directors relies primarily on information provided to it by our Manager. Transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our Board of Directors.

In addition, we may change our business strategy and investment policy and targeted asset classes at any time without the consent of our stockholders, and this could result in our making investments that are different in type from, and possibly riskier, than our current investments or the investments currently contemplated. Changes in our investment strategy and investment policy and targeted asset classes may increase our exposure to interest rate risk, counterparty risk, default risk and real estate market fluctuations, which could materially and adversely affect us.

Policies with Respect to Certain Transactions

Other than (i) transactions in which our Servicer is the holder of record because we or our subsidiaries may not hold the necessary license to hold those assets directly, but where we are the beneficial owner of at least 95% of the participation rights in those assets, or (ii) as approved by a majority of the independent members of our Board of Directors, we generally will not purchase portfolio assets from, or sell them to, our directors or officers or to our Manager, Aspen or any of their affiliates, or engage in any transaction in which they have a direct or indirect pecuniary interest, including in connection with the securitization of any of our mortgage loan assets (other than our agreements with our Manager, the Servicer and Aspen described in more detail herein) without the consent of the

Investment Supervisory Committee of the Board of Directors.

Policies with Respect to Certain Other Activities

We intend to raise additional funds through future offerings of equity or debt securities or the retention of cash flow (subject to REIT distribution requirements) or a combination of these methods. In the event that our Board of Directors determines

to raise additional equity capital, it has the authority, without stockholder approval, to issue additional common stock or preferred stock in any manner and on such terms and for such consideration as it deems appropriate, at any time, subject to compliance with applicable regulatory requirements.

In addition, we expect to borrow money to finance or refinance the acquisition of RPLs, SBC loans and REO and for general corporate purposes and we may borrow to finance the payment of dividends. Our investment policy, the assets in our portfolio, the decision to use leverage and the appropriate level of leverage will be based on our Manager’s assessment of a variety of factors, including our historical and projected financial condition, liquidity and results of operations, financing covenants, the cash flow generation capability of assets, the availability of credit on favorable terms, our outlook for borrowing costs relative to the unlevered yields on our assets, our intention to qualify and maintain our qualification as a REIT and exemption from the Investment Company Act, applicable law and other factors, as our Board of Directors may deem relevant from time to time. Our decision to use leverage is at our Manager’s discretion and is not subject to the approval of our stockholders. We are not restricted by our governing documents in the amount of leverage that we may use.

As of the date of this annual report, we have not invested in the securities of other REITs, other entities engaged in real estate activities or securities of other issuers for the purpose of exercising control over such entities. We do not intend that our investments in securities will require us to register as an investment company under the Investment Company Act, and we would intend to divest such securities before any such registration would be required. We do not intend to underwrite securities of other issuers. We finance our assets with what we believe to be a prudent amount of leverage, which will vary from time to time based upon the particular characteristics of our portfolio, availability of financing and market conditions. We have funded and intend to continue to fund our asset acquisitions with non-recourse securitizations in which the underlying collateral is not marked-to-market and employ repurchase agreements without the obligation to mark to market the underlying collateral to the extent available. Our two repurchase agreements include terms ranging from a maximum borrowing base of 85% of market value on one agreement to 70% of purchase price, not to exceed 65% of property value, on the other. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” for a description of our securitizations, our repurchase financing facility and any other outstanding indebtedness.

In a repurchase agreement, we sell an asset to a counterparty at a discounted value, or the loan amount, and simultaneously agree to repurchase the same asset from such counterparty at a price equal to the loan amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, repurchase agreements are generally accounted for as debt secured by the underlying assets. During the term of a repurchase agreement, we generally receive the income and other payments distributed with respect to the underlying assets, and pay interest to the counterparty. While the proceeds of our repurchase agreement financings are often used to purchase additional assets subject to the same repurchase agreement, our financing arrangements are not expected to restrict our ability to use proceeds from these arrangements to support our other liquidity needs. Our repurchase agreement arrangements are typically documented under the standard form master repurchase agreement of the Securities Industry and Financial Markets Association, with the ability for both parties to request margin. Given daily market volatility, we and our repurchase agreement counterparties are required to post additional margin collateral to each other from time to time as part of the normal course of our business. Our repurchase agreement financing counterparties generally have the right to determine the value of the underlying collateral for purposes of determining the amount of margin, subject to the terms and conditions of our agreement with the counterparty, including in certain cases our right to dispute the counterparty’s valuation determination.

We may utilize other types of borrowings in the future, including but not limited to, debt financing through bank credit facilities, warehouse lines of credit and structured financing arrangements, among others. We may also seek to raise additional capital through public or private offerings of debt or equity securities, depending upon market conditions. However, there can be no assurance as to how much additional financing capacity such efforts will produce, what form the financing will take or that such efforts will be successful. If we are unable to expand our sources of financing, our business, financial condition, liquidity and results of operations may be materially and adversely affected.

Our use of leverage, especially in order to increase the amount of assets supported by our capital base, may have the effect of increasing losses when these assets underperform. Our charter, bylaws and investment policies require no

minimum or maximum leverage and our investment and risk management committees have the discretion, subject to the oversight of our Board of Directors, to change both our overall leverage and the leverage used for individual asset classes. Because our strategy is flexible, dynamic and opportunistic, our overall leverage will vary over time and our Board of Directors believes it is appropriate to apply higher leverage to higher quality assets. As a result, we do not have a targeted asset level debt-to-equity ratio either in the aggregate or by asset class, although we currently expect that our asset level debt-to-equity ratio will be within a range of 1:1 to 3.25:1. As of December 31, 2017, we had an asset level debt-to-equity ratio of 2.9:1. Both ratios exclude the impact of any debt required to be consolidated from our joint venture.

We currently do not hedge the risk associated with the mortgage loans and real estate underlying our portfolios. However, we may undertake risk mitigation activities with respect to our debt financing interest rate obligations. We expect that our debt financing may at times be based on a floating rate of interest calculated on a fixed spread over the relevant index, as

determined by the particular financing arrangement. A significantly rising interest rate environment could have an adverse effect on the cost of our financing. To mitigate this risk, we may use derivative financial instruments such as interest rate swaps and interest rate options in an effort to reduce the variability of earnings caused by changes in the interest rates we pay on our debt, subject to our maintaining compliance with the terms of the no-action letter so that we are not treated as a commodity pool operator for purposes of the Dodd-Frank Act. See "— Operating and Regulatory Structure — Commodity Pool Operator Exemption."

These derivative transactions will be entered into solely for risk management purposes, not for investment purposes. When undertaken, these derivative instruments likely will expose us to certain risks such as price and interest rate fluctuations, timing risk, volatility risk, credit risk, counterparty risk and changes in the liquidity of markets. Therefore, although we expect to transact in these derivative instruments purely for risk management, they may not adequately protect us from fluctuations in our financing interest rate obligations.

The Management Agreement

We are a party to the Management Agreement with the Manager, which expires on July 8, 2029. Under the Management Agreement, the Manager implements our business strategy and manages our business and investment activities and day-to-day operations, subject to oversight by our Board of Directors. Among other services, the Manager, directly or through affiliates, provides us with a management team and necessary administrative and support personnel. Additionally, we pay directly for services related to internal audit, a function which reports to the Audit Committee of the Board of Directors. We do not currently have any employees paid directly by us and do not expect to have any other employees that are paid directly by us in the foreseeable future. Each of our executive officers is an employee or officer, or both, of the Manager or the Servicer.

Under the Management Agreement, we pay both a base management fee and an incentive fee to the Manager.

The base management fee equals 1.5% of our stockholders' equity per annum, including equity equivalents such as our recent issuance of Convertible senior notes, and is calculated and payable quarterly in arrears. For purposes of calculating the management fee, our stockholders' equity means: the sum of (i) the net proceeds from any issuances of common stock or other equity securities we or the Operating Partnership have issued (without double counting) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), and (ii) our and our Operating Partnership's (without double counting) retained earnings calculated in accordance with accounting principles generally accepted in the United States, ("U.S. GAAP,") at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (A) any amount that we or our Operating Partnership pays to repurchase shares of common stock or outstanding limited partnership units of our Operating Partnership ("OP Units") since inception, (B) any unrealized gains and losses and other non-cash items that have affected consolidated stockholders' equity as reported in our consolidated financial statements prepared in accordance with U.S. GAAP, and (C) one-time events pursuant to changes in U.S. GAAP, and certain non-cash items not otherwise described above, in each case after discussions between the Manager and our independent directors and approval by a majority of our independent directors. As a result, our stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on our consolidated financial statements.

The initial $1.0 million of the quarterly base management fee will be payable 75% in cash and 25% in shares of our common stock. Any amount of the base management fee in excess of $1.0 million will be payable in shares of our common stock until payment is 50% in cash and 50% in shares (the "50/50 split"). Any remaining amount of the quarterly base management fee after the 50/50 split threshold is reached will be payable in equal amounts of cash and shares. The quantity of common stock will be determined using the higher of the most recently reported book value or the average of the closing prices of our common stock on the NYSE on the five business days after the date on which the most recent regular quarterly dividend to holders of our common stock is paid. The Manager has agreed to hold any shares of common stock it receives as payment of the base management fee for at least three years from the date such shares of common stock are received.

The Manager is also entitled to an incentive fee, payable quarterly and calculated in arrears, of 20% of the amount by which total dividends on our common stock and distributions on OP units exceeds 8% of book value. However, no incentive fee will be payable to the Manager with respect to any calendar quarter unless our cumulative core earnings, defined as U.S. GAAP net income or loss less non-cash equity compensation, unrealized gains or losses from

mark-to-market adjustments, one-time adjustments to earnings resulting from changes to U.S. GAAP, and certain other non-cash items, is greater than zero for the most recently completed eight calendar quarters. In the event that the payment of the quarterly base management fee has not reached the 50/50 split, all of the incentive fee will be payable in shares of our common stock until the 50/50 split occurs. In the event that the total payment of the quarterly base management fee and the incentive fee has reached the 50/50 split, 20% of the remaining incentive fee is payable in shares of our common stock and 80% of the remaining incentive fee is payable in cash. To date, no incentive fees have been paid to the Manager.

We also reimburse the Manager for all third-party, out-of-pocket costs it incurs for managing our business, including third-party diligence and valuation consultants, legal expenses, auditors and other financial services. The reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash on a monthly basis.

We will be required to pay the Manager a termination fee in the event that the Management Agreement is terminated as a result of (i) a termination by us without cause, (ii) our decision not to renew the Management Agreement upon the determination of at least two thirds of our independent directors for reasons including the failure to agree on revised compensation, (iii) a termination by the Manager as a result of us becoming regulated as an “investment company” under the Investment Company Act (other than as a result of the acts or omissions of the Manager in violation of investment guidelines approved by our Board of Directors), or (iv) a termination by the Manager if we default in the performance of any material term of the Management Agreement (subject to a notice and cure period). The termination fee will be equal to twice the combined base fee and incentive fees payable to the Manager during the 12-month period ended as of the end of the most recently completed fiscal quarter prior to the date of termination.

The Servicer

Our Servicer, Gregory, was formed by the members of our Manager’s management team to service “high-touch” assets, which are loans that require substantial and active interaction with the borrower for modification or other resolution. These loans are to less creditworthy borrowers or for properties the value of which has decreased and are more expensive to service because they require more frequent interaction with customers and greater monitoring and oversight. Our Servicer, or its wholly owned subsidiary, is licensed to service loans in all states in which it does business and has unsupervised Title II Mortgagee authorization from the Federal Housing Administration (“FHA”). Our Servicer, or its wholly owned subsidiary, is also a licensed mortgage lender in 23 states, and currently has mortgage loan origination staff who are licensed in 13 of those states. We own a 4.9% equity interest in the parent company of our Servicer through a TRS.

Our Servicer must comply with a wide array of U.S. federal, state and local laws and regulations that regulate, among other things, the manner in which it services our mortgage loans and manages our real property in accordance with the Servicing Agreement, including recent Consumer Financial Protection Bureau (“CFPB”), mortgage servicing regulations promulgated pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). These laws and regulations cover a wide range of topics. The laws and regulations are complex and vary greatly among the states and localities. In addition, these laws and regulations often contain vague standards or requirements, which make compliance efforts challenging. From time to time, the Servicer may become party to certain regulatory inquiries or proceedings, which, even if unrelated to the residential mortgage servicing operation, may result in adverse findings, fines, penalties or other assessments and may affect adversely the Servicer’s reputation.

Servicing fees are 0.65% annually of UPB for RPLs, including SBC loans, and 1.25% annually of UPB for NPLs, and are paid monthly. The status of a loan is determined at acquisition and is not updated for subsequent performance or non-performance. The total fees we incur for these services depend upon the UPB and type of mortgage loans that the Servicer services pursuant to the terms of the Servicing Agreement. Servicing fees for our real property assets are the greater of (i) the servicing fee applicable to the underlying mortgage loan prior to foreclosure, or (ii) 1.00% annually of the fair market value of the REO as reasonably determined by the Manager or 1.00% annually of the purchase price of any REO we otherwise purchase.

We also reimburse the Servicer for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations to REO properties. The total fees we incur for these services will be dependent upon the property value, previous UPB of the relevant loan, and the number of REO properties.

If the Servicing Agreement has been terminated other than for cause and/or the Servicer terminates the Servicing Agreement, we will be required to pay a termination fee equal to the aggregate servicing fees payable under the Servicing Agreement for the immediate preceding 12-month period.

Our Servicer services our mortgage loans, mortgage-backed securities (“MBS”), REO and other real estate assets. Our Servicer is licensed to service loans or is exempt from licensing in all states in which it does business. Our Servicer is also an approved servicer for the FHA and the Veterans Administration (“VA”). As of the date of this annual report, our Servicer and its subsidiary is licensed in every state in which licensing is required for such activities.

Our Servicer employs various loan resolution methodologies with respect to our residential mortgage loans, including loan modification, collateral resolution and collateral disposition. To help us achieve our business objective, the Servicer focuses on (1) supporting the continuing performance of our RPLs; (2) converting a portion of our RPLs and NPLs to performing status; and (3) managing the foreclosure process and timelines with respect to the remainder of those loans.

Our preferred resolution methodology is typically to cause the RPLs and NPLs to perform. Following a period of continued performance, we expect many borrowers will refinance these loans with other lenders at or near the estimated value of the underlying property, potentially generating attractive returns for us. We believe loan re-performance followed by refinancing generates near-term cash flows, provides the highest possible stable economic outcome for us and is a socially responsible business strategy because it keeps more families in their homes. In certain circumstances, we may also consider selling these new RPLs. However, based on historical experience, we expect that many of our residential NPL will enter into foreclosure, ultimately becoming REO that we can, partially based on our analysis of risk-adjusted returns, sell, or convert into rental properties. If a REO property does not meet our investment criteria, we expect the Servicer to engage in REO liquidation and short sale processes to dispose of the property and generate cash for reinvestment in other acquisitions. We believe that our multifaceted resolution approach generally creates optimal stable returns, as all loans and REO may not be amenable to a single resolution strategy. To avoid the 100% prohibited transaction tax on the sale of dealer property by a REIT, we may dispose of assets that may be treated as held “primarily for sale to customers in the ordinary course of a trade or business” by contributing or selling the asset to a TRS, prior to marketing the asset for sale. For more information regarding our resolution methodologies, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors That May Affect Our Operating Results — Resolution Methodologies.”

The Servicer collects and remits mortgage loan payments, responds to borrower inquiries, accounts for principal and interest, holds custodial and escrow funds for payment of property taxes and insurance premiums, counsel or otherwise work with delinquent borrowers, supervises foreclosures and property dispositions and generally administers the loans. In return for these servicing functions, we pay servicing fees to the Servicer equal to specified percentages of the outstanding unpaid principal balance of the loans being serviced. We are entitled to other forms of servicing compensation, rather than the Servicer, such as late payment or modification fees and any prepayment penalties payable by borrowers. Servicing compensation also includes interest income, or the “float,” earned on collections that are deposited in various custodial accounts between their receipt and the scheduled or contractual distribution of the funds to investors. Generally, the Servicer does not advance delinquent monthly payments of interest or principal in respect of mortgage loans but will be obligated to make certain servicing advances.

The Servicer also services the mortgage loans underlying the MBS we create and sell to investors pursuant to customary agreements.

Under the Servicing Agreement, the Servicer also provides property management, lease management and renovation management services associated with the real properties we acquire upon conversion of mortgage loans that we own or that we acquire directly and assists in finding third party financing for such properties.

When we determine to sell a particular REO asset through our Servicer, we have the capability in certain states to underwrite and offer mortgage financing to the purchaser. We rely on our Servicer’s in-depth knowledge of the properties when we facilitate financing in connection with a sale of a property through an unaffiliated lender. Unlike more traditional lenders, which base their underwriting primarily on the Fair Isaac Corporation (FICO®) credit risk score, our Servicer focuses on the borrower’s cash flow and residual income after satisfaction of monthly requirements, including the expenses for any dependents, employment stability and the ability to make a cash down payment. As a result, when selling REO property, we may choose to purchase the loan. We believe that our ability to offer financing tailored to the particular borrower provides another tool to maximize our return by converting REO to long-term significant net yield generating assets. Our Servicer receives no additional compensation from us for originating REO sale financing or other loans that we acquire.

Competition

In acquiring our assets, we compete with other mortgage and hybrid REITs, hedge funds, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, investment banking firms, financial institutions, governmental bodies and other entities. Most of our competitors are significantly larger than us, have greater access to capital and other resources and may have other advantages over us. In addition to existing companies, other companies may be organized for similar purposes, including companies focused on purchasing mortgage assets. A proliferation of such companies may increase the competition for equity capital and thereby adversely affect the price of our shares of common stock. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets and

establish more relationships than us.

In the face of this competition, we rely on our Manager's professionals and their industry expertise, which we believe provides us with a competitive advantage and helps us assess risks and determine appropriate pricing for certain potential assets. In addition, we believe that these relationships enable us to compete more effectively for attractive asset acquisition opportunities. However, we may not be able to achieve our business objectives due to the competitive risks that we face.

Operating and Regulatory Structure

Tax Requirements

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. Provided that we continue to qualify and maintain our qualification as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income that is currently distributed to our stockholders. REITs are subject to a number of organizational and operational requirements, including a requirement that they currently distribute at least 90% of their annual REIT taxable income excluding net capital gains. We cannot assure you that we will be able to continue to comply with such requirements in the future. Failure to qualify as a REIT in any taxable year would cause us to be subject to U.S. federal income tax on our taxable income at regular corporate rates (and any applicable state and local taxes). Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state, local and non-U.S. taxes on our income. For example, for any business that we conduct through a TRS, the income generated by that subsidiary will be subject to U.S. federal, state and local income tax. GAJX Real Estate LLC is a wholly owned subsidiary of the Operating Partnership formed to own, maintain, improve and sell certain REO purchased by us. GA-TRS LLC ("GA-TRS") is a wholly owned subsidiary of our Operating Partnership that owns our 19.8% equity interest in our Manager. We have elected to treat both GAJX Real Estate LLC and GA-TRS as taxable REIT subsidiaries under the Internal Revenue Code of 1986, as amended (the "Code").

Investment Company Act Exclusion

We conduct our operations so that neither we nor any of our subsidiaries is required to register as an investment company under the Investment Company Act. Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, which we refer to as the 40% test. Excluded from the term ''investment securities,'' among other things, are securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exclusion from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We are organized as a holding company and conduct our businesses primarily through wholly owned subsidiaries of our Operating Partnership. Our Operating Partnership holds certain real estate and real estate-related assets, directly and through subsidiaries. Neither we nor our Operating Partnership nor Great Ajax Funding is an investment company under Section 3(a)(1)(C). In addition, we conduct our operations so that neither we nor our Operating Partnership nor Great Ajax Funding come within the definition of an investment company by ensuring that less than 40% of the value of our total assets on an unconsolidated basis consists of "investment securities."

We monitor our compliance with the 40% test and the holdings of our subsidiaries to ensure that each of our subsidiaries is in compliance with an applicable exemption or exclusion from registration as an investment company under the Investment Company Act.

Our 19.8% equity interest in our Manager and our 4.9% equity interest in the parent company of our Servicer are owned by GA-TRS, which is a special purpose subsidiary of our Operating Partnership. GA-TRS may rely on Section 3(c)(1) or 3(c)(7) for its Investment Company Act exclusion and, therefore, our interest in such subsidiary would constitute an ''investment security'' for purposes of determining whether we pass the 40% test. We also may form certain other wholly owned or majority-owned subsidiaries that will invest, subject to our investment guidelines, in other real estate-related assets. These subsidiaries may rely upon the exclusion from the definition of investment company under the Investment Company Act pursuant to Section 3(c)(1) or 3(c)(7) of the Investment Company Act. The securities issued by any wholly owned or majority-owned subsidiary that we may form and that are excluded from the definition of "investment company" based on Section 3(c)(1) or 3(c)(7) of the Investment Company Act, together with any other investment securities we may own, may not have a value in excess of 40% of the value of our total assets on an unconsolidated basis.

In addition, we believe that neither we nor certain of our subsidiaries will be considered investment companies under Section 3(a)(1)(A) of the Investment Company Act because we and they will not engage primarily or hold themselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, we and such

subsidiaries will be primarily engaged in non-investment company businesses related to real estate. Consequently, we and our subsidiaries expect to be able to conduct our operations such that none will be required to register as an investment company under the Investment Company Act.

Certain of our subsidiaries may also rely upon certain exclusions from the definition of investment company under Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C), as interpreted by the staff of the SEC, requires an entity

to invest at least 55% of its assets in “mortgages and other liens on and interests in real estate,” which we refer to as “qualifying real estate interests,” and at least 80% of its assets in qualifying real estate interests plus “real estate-related assets.”

On August 31, 2011, the SEC published a concept release entitled “Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments” (Investment Company Act Rel. No. 29778). This release notes that the SEC is reviewing the Section 3(c)(5)(C) exclusion relied upon by companies similar to us that invest in mortgage loans. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the SEC or its staff regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations as a result of this review. To the extent that the SEC or its staff provides more specific guidance regarding any of the matters bearing upon our exclusion from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies that we have chosen.

The loss of our exemption from regulation pursuant to the Investment Company Act could require us to restructure our operations, sell certain of our assets or abstain from the purchase of certain assets, which could have an adverse effect on our financial condition and results of operations. See “Item 1A. Risk Factors — Risks Related to Our Organizational Structure — Maintenance of our exclusion from registration as an investment company under the Investment Company Act imposes significant limitations on our operations.”

Commodity Pool Operator Exemption

Under the Dodd-Frank Act, any investment fund that trades in swaps may be considered a “commodity pool,” which would cause its operators to be regulated as a “commodity pool operator,” or CPO. We have relied on no-action relief from registration from the Commodity Futures Trading Commission (“CFTC”) and filed our claim with the CFTC to perfect the use of the no-action relief from registration. In order to be exempt from registration as a CPO under the no-action relief, we must, among other non-operation requirements: (1) limit our initial margin and premiums required to establish our swap or futures positions to no more than 5% of the fair market value of our total assets; and (2) limit our net income derived annually from our swaps and futures positions that are not “qualifying hedging transactions” to less than 5% of our gross income. The need to operate within these parameters could limit the use of swaps by us below the level that we would otherwise consider optimal or may lead to the registration of our company or our directors as CPOs. See “Item 1A. Risk Factors — Risks Related to Regulatory and Legislative Actions — We may be unable to operate within the parameters that allow us to be excluded from regulation as a commodity pool operator, which would subject us to additional regulation and compliance requirements, and could materially adversely affect our business and financial condition.”

Environmental Matters

As an owner of real estate, we are subject to various U.S. federal, state and local environmental laws, regulations and ordinances and also could be liable to third parties resulting from environmental contamination or noncompliance with environmental laws at our properties. Environmental laws can impose liability on an owner or operator of real property for the investigation and remediation of contamination at or migrating from such real property, without regard to whether the owner or operator knew of or was responsible for the presence of the contaminants. The costs of any required investigation or cleanup of these substances could be substantial. The liability is generally not limited under such laws and could exceed the property’s value and the aggregate assets of the liable party. The presence of contamination or the failure to remediate contamination at our properties also may expose us to third-party liability for personal injury or property damage or adversely affect our ability to sell, lease or renovate the real estate or to borrow using the real estate as collateral. See also “Item 1A. Risk Factors.”

Employees

Exclusive of certain incentive stock grants, we do not currently have any employees that are paid directly by us, and excluding incentive stock grants do not expect to have any employees paid directly by us in the foreseeable future. Each of our executive officers is an employee or officer or both, of our Manager or of the Servicer, and they are paid by our Manager or the Servicer, as applicable. Our Manager and the Servicer share employees with other affiliates of Aspen as necessary to implement our business strategy.

Item 1A. Risk Factors

You should carefully consider the risks described below together with the other information included in this annual report on Form 10-K. Our business, financial condition or results of operations could be adversely affected by any of these risks. If any of these risks occur, the value of our common stock could decline.

Risks Related to Our Business

We have a limited operating history and may not be able to operate our business in accordance with the REIT requirements or generate sufficient revenue to make or sustain distributions to our stockholders.

We were incorporated on January 30, 2014 and commenced operations on July 8, 2014. Prior to July 8, 2014, neither we nor our Manager had any operating history, and our Manager had not previously operated or managed a REIT. We cannot assure you that we will be able to continue to operate our business successfully or implement our operating policies and strategies. There can be no assurance that we will be able to continue to generate sufficient returns to pay our operating expenses and make satisfactory distributions to our stockholders or any distributions at all. The results of our operations depend on factors over which we have no control, including the availability of acquisition opportunities, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the mortgage loan and financial markets and general economic conditions.

A significant portion of our mortgage loans may become NPLs, which could increase our risk of loss.

We may acquire mortgage loans where the borrower has failed to make timely payments of principal and/or interest currently or in the past. As part of the mortgage loan portfolios we purchase, we also may acquire performing loans that subsequently become non-performing. Under current market conditions, many of these loans will have current loan-to-value ratios in excess of 100%, meaning the amount owed on the loan exceeds the value of the underlying real estate. Although we expect to purchase loans at significant discounts to UPB and underlying property value, if actual results are different from our assumptions in determining the prices for such loans, particularly if the market value of the underlying property decreases significantly, we may incur significant losses. There are no limits on the percentage of NPLs we may hold. Any loss we incur may be significant and could materially and adversely affect us.

Residential mortgage loan modification and refinance programs, future legislative action, and other actions and changes in the general economy may materially and adversely affect the supply of, value of, and the returns on, RPLs and NPLs.

Our business model depends on the acquisition of a steady supply of RPLs, our ability to support continued performance by borrowers under RPLs, the success of our loan modification and other resolution efforts and to a certain extent, the conversion of a portion of those loans to REO that we can then sell or rent. The number of RPLs available for purchase may be reduced by uncertainty in the lending industry and the governmental sector and/or as a result of general economic improvement. Lenders may choose to delay foreclosure proceedings, renegotiate interest rates or refinance loans for borrowers who face foreclosure.

In addition, in recent years, the U.S. federal government has instituted a number of programs aimed at assisting at-risk homeowners, or reducing the number of properties going into foreclosure or going into non-performing status. For example, the U.S. Government, through the Department of the Treasury, U.S. Department of Housing and Urban Development ("HUD"), and the Federal Housing Finance Agency ("FHFA"), has implemented a number of federal programs designed to assist homeowners, including the Home Affordable Modification Program ("HAMP"), which provides homeowners with assistance in avoiding foreclosure on residential mortgage loans, and the Home Affordable Refinance Program ("HARP"), which allows Fannie Mae and Freddie Mac borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments without new mortgage insurance, up to an unlimited loan-to-value ratio for fixed-rate mortgages. HAMP, HARP and other loss mitigation programs may involve, among other things, the modification of residential mortgage loans to reduce the principal amount of the loans (through forbearance and/or forgiveness) and/or the rate of interest payable on the loans or to extend the payment terms of the loans. These loan modification programs, any other programs that may replace these programs as they expire, future legislative or regulatory actions, including possible amendments to the bankruptcy laws that result in the modification of outstanding residential mortgage loans, as well as changes in the requirements necessary to qualify for refinancing residential mortgage loans, may materially and adversely affect the value of, and the returns on, our portfolio of RPLs and NPLs.

Other governmental actions may affect our business by hindering the pace of foreclosures. In recent periods, there has been a backlog of foreclosures in certain jurisdictions, due to a combination of volume constraints and legal actions, including those brought by the U.S. Department of Justice ("DOJ"), HUD, State Attorneys General, the office of the Comptroller of the Currency, and the Federal Reserve Board against mortgage servicers alleging wrongful foreclosure practices. Legal claims brought or threatened by the DOJ, HUD, CFPB and State Attorneys General against residential mortgage servicers have produced large settlements. A portion of the funds from these settlements are directed to

homeowners seeking to avoid foreclosure through mortgage modifications, and servicers are required to adopt specified measures to reduce mortgage obligations in certain situations. We expect that the settlements will help many homeowners avoid foreclosures that would otherwise have occurred in the near-term. It is also possible that other residential mortgage servicers will agree to similar settlements. These developments will reduce the number of homes in the process of foreclosure and decrease the supply of properties and assets that meet our investment criteria.
In addition, the U.S. Congress and numerous state legislatures have considered, proposed or adopted legislation to constrain foreclosures, or may do so in the future. The Dodd-Frank Act also created the CFPB, which supervises consumer

financial services companies (including bank and non-bank mortgage lenders and mortgage servicers) and enforces U.S. federal consumer protection laws as they apply to banks, credit unions and other financial services companies, including mortgage servicers, and which has issued many regulations regarding mortgage origination and servicing. These regulations provide for special remedies in favor of consumer mortgage borrowers, particularly upon default and foreclosure. It remains uncertain whether any of these measures will have a significant impact on foreclosure volumes or what the timing of that impact would be. If foreclosure volumes were to decline significantly, we may experience difficulty in finding target assets at attractive prices, which will materially and adversely affect us. Also, the number of families seeking rental housing might be reduced by such legislation, reducing rental housing demand for properties that we may seek to rent in our markets.

The supply of RPLs and SBC loans may decline over time as a result of higher credit standards for new loans and/or general economic improvement, and the prices for RPLs and SBC loans may increase, which could materially and adversely affect us.

As a result of the continuing effects of the economic crisis in 2008, there has been an increased supply of RPLs available for sale. However, in response to the economic crisis, the origination of jumbo, subprime, Alt-A and second-lien residential mortgage loans has dramatically declined as lenders have increased their standards of creditworthiness in originating new loans and fewer homeowners may go into NPL status on their residential mortgage loans. In addition, the prices at which RPLs and SBC loans can be acquired may increase due to the entry of new participants into the distressed loan marketplace or a smaller supply of RPLs and SBC loans in the marketplace. For these reasons, along with the continuing slow rate of general improvement in the economy, the supply of RPLs and SBC loans that we may acquire may decline over time, which could materially and adversely affect us.

The SBC loans we expect to acquire will be subject to the ability of the commercial property owner to generate net income from operating the property as well as the risks of delinquency and foreclosure.

The ability of a commercial mortgage borrower to repay a SBC loan secured by an income-producing property, such as a multi-family residential and commercial mixed use retail/residential property, typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the SBC loan may be impaired. Net operating income of an income producing property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances. In the event of the bankruptcy of a commercial mortgage loan borrower, the SBC loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the SBC loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a SBC loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed SBC loan.

Difficult conditions in the mortgage, residential real estate and smaller commercial real estate markets as well as general market concerns may adversely affect the value of the assets in which we invest and these conditions may persist for the foreseeable future.

Our business is materially affected by conditions in the residential mortgage market, the residential real estate market, the smaller commercial real estate market, the financial markets and the economy in general. Concerns about the residential mortgage market, as well as inflation, energy costs, geopolitical issues, concerns over the creditworthiness of governments worldwide and the stability of the global banking system, continuing relatively high unemployment and under-employment and the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and markets going forward. In particular, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions, including defaults, credit losses and

liquidity concerns.

Certain commercial banks, investment banks and insurance companies continue to announce losses from exposure to the residential mortgage market. These factors have affected investor perception of the risk associated with MBS, other real estate-related securities and various other asset classes in which we may invest. As a result, values of certain of our assets and the asset classes in which we intend to invest have experienced volatility. Further deterioration of the mortgage market and investor perception of the risks associated with MBS we may retain as part of our securitizations, as well as other assets that we acquire could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We may be materially and adversely affected by risks affecting borrowers or the single-family rental properties in which our investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions.

Our assets are not subject to any geographic, diversification or concentration limitations. Accordingly, our investment portfolio may be concentrated by geography, single-family rental property characteristics and/or borrower demographics, increasing the risk of loss to us if the particular concentration in our portfolio is subject to greater risks or undergoing adverse developments. In addition, adverse conditions in the areas where the properties securing or otherwise underlying our investments are located (including business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) may have an adverse effect on the value of our investments. A material decline in the demand for single-family housing or rentals in these or other areas where we own assets may materially and adversely affect us. Lack of diversification can increase the correlation of non-performance and foreclosure risks among our investments. Historically, the mortgage and real estate assets acquired by affiliates of our Manager have been concentrated in Florida and the western and southwestern United States.

Changes in consumer mortgage loan regulations may make it more difficult for borrowers to refinance our purchased mortgage loans.

The Dodd-Frank Act authorized the CFPB to issue regulations, including the Ability-to-Pay Rule (the "ATR Rule") governing a loan originator's determination that, at the time a loan is originated, the consumer has a reasonable ability to repay the loan ("ATR"). The CFPB promulgated the ATR Rule, which implements detailed requirements on how lenders must establish a borrower's ability to repay a covered mortgage loan. The ATR Rule became effective for residential mortgage loan applications received on or after January 10, 2014. A subset of mortgages within the ATR Rule are known as "qualified mortgages," ("QMs"). The Dodd-Frank Act provides a statutory presumption that a borrower will have the ability to repay a loan if the loan has the characteristics that meet the definition of QM, potentially mitigating the risk of liability of the creditor and assignee of the creditor for special ATR remedies under the U.S. federal Truth in Lending Act ("TILA"). Mortgage lenders may be reluctant to make loans that do not qualify as QMs because they will not be entitled to such protection against civil liability under the Dodd-Frank Act. As a result, the ATR Rule may restrict the availability of mortgage loans in the market, including refinancing loans.

Changes in the underwriting standards by Freddie Mac, Fannie Mae or FHA could make it more difficult to refinance our purchased mortgage loans.

In 2010, Freddie Mac and Fannie Mae announced tighter underwriting guidelines, particularly for adjustable rate mortgages, ("ARMS"), and hybrid interest-only ARMs ("Hybrid ARMs"). Specifically, Freddie Mac announced that it would no longer purchase interest-only mortgages and Fannie Mae changed its eligibility criteria for purchasing and securitizing ARMs to protect consumers from potentially dramatic payment increases. Stricter underwriting standards by Freddie Mac, Fannie Mae or the FHA could affect our ability to refinance mortgage loans and the terms on which mortgage loans may be refinanced, which may adversely affect our business and results of operations.

The whole residential mortgage loans and other residential mortgage assets in which we invest are subject to risk of default, among other risks.

The mortgage loans and other mortgage-related assets that we acquire from time to time may be subject to defaults (including re-default for RPLs), foreclosure timeline extension, fraud, residential price depreciation and unfavorable modification of loan principal amount, interest rate and amortization of principal, which could result in losses to us. Residential mortgage loans are secured by single-family residential property and, are subject to risks of delinquency and foreclosure and risks of loss. The payment of the principal and interest on the mortgage loans we acquire would not typically be guaranteed by any sponsored enterprise ("GSE"), such as Fannie Mae and Freddie Mac, or securitized through Ginnie Mae or any other governmental agency. Additionally, by directly acquiring whole mortgage loans, we do not receive the structural credit enhancements that can benefit senior tranches of MBS. A whole mortgage loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower and the priority and enforceability of the lien will significantly affect the value of such mortgage. The ability of a borrower to repay a loan secured by a residential property typically depends upon the income or assets of the borrower. A number of factors, including a general economic downturn, acts of nature, terrorism, social unrest and civil disturbances, may impair a borrower's ability to repay a mortgage loan. Foreclosure

of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on a foreclosed mortgage loan. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses. Whole mortgage loans are also subject to "special hazard" risk such as property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the

underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor in possession to the extent the lien is unenforceable under state law. In addition, claims may be assessed against us on account of our position as a mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be "recourse liabilities" or may otherwise lead to losses in excess of the purchase price of the related mortgage or property. Although we acquire mortgage loans at significant discounts from their UPB and underlying property value, in the event of any default under a mortgage loan held directly by us, we bear a risk of loss of the principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations and results of operations. The MBS we retain from our own securitizations evidence interests in, or are secured by, pools of residential mortgage loans. Accordingly, the MBS that we hold is subject to all of the risks of the respective underlying mortgage loans.

For certain residential mortgage loans, the Dodd-Frank Act established, through amendment to TILA, life-of-loan liability on any holder of a residential mortgage loan that takes action on the loan following default (including foreclosure). This liability is premised upon violation of the ATR Rule, as well as violation of the loan originator compensation rule. Borrower remedies, available by way of recoupment or set-off, include statutory damages and attorneys' fees.

Our SBC loans in respect of smaller multi-family residential properties or smaller mixed use retail/residential properties may be subject to defaults, foreclosure timeline extension, fraud and commercial price depreciation and unfavorable modification of loan principal amount, interest rate and amortization of principal.

Our SBC loans secured by multi-family or commercial property may be subject to risks of delinquency and foreclosure, and risk of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically depends primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things:

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location and condition;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- any need to address environmental contamination at the property or the occurrence of any uninsured casualty at the property;
- changes in national, regional or local economic conditions and/or specific industry segments;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates;
- real estate tax rates and other operating expenses;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation; and
- acts of God, terrorist attacks, social unrest and civil disturbances.

If we fail to develop, enhance and implement strategies to adapt to changing conditions in the commercial real estate industry and capital markets, our financial condition and results of operations may be materially and adversely affected by our acquisition of SBC loans.

The manner in which we compete and the types of SBC loans we are able to acquire will be affected by changing conditions resulting from sudden changes in the commercial real estate industry, regulatory environment, the role of credit rating agencies or their rating criteria or process, or the U.S. and global economies generally. If we do not effectively respond to these changes, or if our strategies to respond to these changes are not successful, our financial condition and results of

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operations may be adversely affected. In addition, we can provide no assurances that we will be successful in executing our business strategy in successfully acquiring SBC loans.

If we acquire and subsequently re-sell any whole mortgage loans, we may be required to repurchase such loans or indemnify investors if we breach representations and warranties.

If we acquire and subsequently re-sell any whole mortgage loans, we would generally be required to make customary representations and warranties about such loans to the loan purchaser. Our residential mortgage loan sale agreements and terms of any securitizations into which we sell loans will generally require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. Repurchased loans are typically worth only a fraction of the original price. Significant repurchase activity could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. Further, depending on the level of repurchase and resale activities, we may determine to conduct any such activities through a TRS.

We are subject to counterparty risk and may be unable to seek indemnity or require our counterparties to repurchase mortgage loans if they breach representations and warranties, which could cause us to suffer losses.

When selling mortgage loans, sellers typically make customary representations and warranties about such loans. Our residential mortgage loan purchase agreements may entitle us to seek indemnity or demand repurchase or substitution of the loans in the event our counterparty breaches a representation or warranty given to us. However, there can be no assurance that our mortgage loan purchase agreements will contain appropriate representations and warranties, that we will be able to enforce our contractual right to repurchase or substitution, or that our counterparty will remain solvent or otherwise be able to honor its obligations under its mortgage loan purchase agreements. Our inability to obtain indemnity or require repurchase of a significant number of loans could harm our business, financial condition, liquidity, results of operations and our ability to make distributions to our stockholders.

Certain investments in portfolios of whole mortgage loans and other mortgage assets may require us to purchase less desirable mortgage assets as part of an otherwise desirable pool of mortgage assets, which could subject us to additional risks relating to the less desirable mortgage assets.

If we acquire portfolios of whole mortgage loans and other mortgage assets, the portfolio may contain some assets that we would not otherwise seek to acquire on their own. These other assets may subject us to additional risks. Acquisition of less desirable mortgage assets may impair our performance and reduce the return on our investments.

To the extent that due diligence is conducted on potential assets, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead to losses.

Before making an investment, we conduct (either directly or using third parties) certain due diligence. There can be no assurance that we will conduct any specific level of due diligence, or that, among other things, our due diligence processes will uncover all relevant facts or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

The failure of a seller of mortgage loans to provide all the necessary documentation to us could adversely affect our ability to leverage our assets or otherwise service the mortgage loans that we will own.

Pursuant to customary provisions in the purchase agreements governing our loan acquisitions, we also generally have the right to cause the sellers to repurchase certain loans if they do not provide proper documentation to evidence ownership or first lien status with respect to such loans within a specified time period. Any delay or inability to obtain such documentation could adversely affect our ability to leverage such loans, could adversely affect the Servicer’s ability to service those mortgage loans and any such repurchases by the sellers would decrease the size of our portfolio.

We primarily own higher risk loans, which are more expensive to service than conventional mortgage loans.

A significant percentage of the mortgage loans we own are higher risk loans, meaning that the loans are to less creditworthy borrowers or for properties the value of which has decreased. These loans are more expensive to service because they require more frequent interaction with customers and greater monitoring and oversight. Additionally, in connection with the ongoing mortgage market reform and regulatory developments, servicers of higher risk loans may be subject to increased scrutiny by state and U.S. federal regulators or may experience higher compliance costs, which

could result in a further increase in servicing costs. Through the Servicing Agreement, the Servicer passes along to us many of the additional third-party expenses incurred by it in servicing these higher risk loans. The greater cost of servicing higher risk loans, which may be further increased through regulatory reform, could adversely affect our business, financial condition and results of operations.

A change in delinquencies for the loans we own could adversely affect our business, financial condition and results of operations.

Delinquency rates have a significant impact on our revenues and expenses of our mortgage loans as follows:

- Revenue. Increased delinquencies generate higher ancillary fees to the loan servicer, which fees are recoverable, if at all, in the event that the related loan is liquidated prior to payment of the interest on the loan or MBS that we own.
- Expenses. An increase in delinquencies will result in a higher cost to service due to the increased time and effort required to collect payments from delinquent borrowers. The cost of servicing an increasingly delinquent mortgage loan portfolio may rise without a corresponding increase in revenue because of increased third-party cost reimbursements such as property taxes and insurance.

An increase in delinquency rates could therefore adversely affect our business, financial condition and results of operations.

Moreover, a significant percentage of the mortgage loans we own are higher risk loans, which tend to have higher delinquency and default rates than GSE and government agency-insured mortgage loans. These higher risk loans, combined with decreases in property values, have caused increases in loan-to-value ratios, resulting in borrowers having little or negative equity in their property, which may provide incentive to borrowers to strategically default on their loans. Recent laws delay the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans or otherwise limit the ability of mortgage servicers to take actions that may be essential to preserve the value of the mortgage loans. Any such limitations are likely to cause delayed or reduced collections from mortgagors.

Market conditions and other factors may affect our ability to securitize assets, which could increase our financing costs and adversely affect our results of operations and ability to make distributions.

Our ability to obtain permanent non-recourse financing through securitizations is affected by a number of factors, including:

- conditions in the securities markets, generally;
- conditions in the asset-backed securities markets, specifically;
- yields on our portfolio of mortgage loans;
- the credit quality of our portfolio of mortgage loans; and
- our ability to obtain any necessary credit enhancement.

In recent years, the asset-backed securitization markets have experienced unprecedented disruptions, and securitization volumes have decreased sharply. Recent conditions in the securitization markets include reduced liquidity, increased risk premiums for issuers, reduced investor demand, financial distress among financial guaranty insurance providers, a general tightening of credit and substantial regulatory uncertainty. Although we have been able to complete 12 securitizations, if these conditions worsen in the future, they could increase our cost of funding, and could reduce or even eliminate our access to the securitization market. As a result, these conditions could preclude us from securitizing assets acquired for such purpose.

Our ability to sell mortgage loans into securitizations could also be delayed, limited, or precluded by legislative and regulatory reforms applicable to asset-backed securities and the institutions that sponsor, service, rate, or otherwise participate in, or contribute to, the successful execution of a securitization transaction. Other factors could also limit, delay, or preclude our ability to sell assets into securitizations. Provisions of the Dodd-Frank Act have required significant revisions to the legal and regulatory framework that apply to the asset-backed securities markets and securitizations. For example, Section 15G of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as modified by the Dodd-Frank Act, generally requires the issuer of asset-backed securities to retain not less than five percent of the credit risk of the assets collateralizing the asset-backed securities. While Section 15G includes an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as "qualified residential mortgages" (as defined in the accompanying regulations), RPLs of the type that we intend to purchase and securitize generally will not qualify for this exemption. We therefore are required to retain five percent or more of the credit risk associated with the assets we securitize.

In addition to these laws and rules, other U.S. federal or state laws and regulations that could affect our ability to sell assets into securitization programs may be proposed, enacted, or implemented. These laws and regulations could effectively preclude us from financing our assets through securitizations or could delay our execution of these types of transactions. Other matters, such as (i) accounting standards applicable to securitization transactions and (ii) capital

and leverage requirements applicable to banks and other regulated financial institutions that traditionally purchase and hold asset-backed securities, could also result in less investor demand for securities issued through securitization transactions.

Prepayment rates can change, adversely affecting the performance of our assets and our ability to reinvest the proceeds thereof.

The frequency at which prepayments (including voluntary prepayments by borrowers, loan buyouts and liquidations due to defaults and foreclosures) occur on mortgage loans, including those underlying MBS, is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, it results in prepayments that are faster or slower than expected on the mortgage loans and any related MBS. These faster or slower than expected payments may adversely affect our profitability, although the effects vary because upon prepayment we can receive 100% of the remaining UPB that we had purchased at a significant discount.

We may purchase loans that have a higher interest rate than the then prevailing market interest rate. In exchange for this higher interest rate, we may pay a premium to par value to acquire the loan. In accordance with U.S. GAAP, we amortize this premium over the expected term of the security or loan based on our prepayment assumptions or its contractual terms, depending on the type of loan or security purchased. If a loan is prepaid in whole or in part at a faster than its expected rate or contractual term (as applicable), we must expense all or a part of the remaining unamortized portion of the premium that was paid at the time of the purchase, which will adversely affect our profitability.

We also may purchase securities or loans that have a lower interest rate than the then prevailing market interest rate. In exchange for this lower interest rate, we may pay a discount to par value to acquire the loan. We accrete this discount over the expected term of the loan based on our prepayment assumptions or its contractual terms, depending on the type of loan or security purchased. If a loan is prepaid at a slower than expected rate, however, we must accrete the remaining portion of the discount at a slower than expected rate. This will extend the expected life of investment portfolio and result in a lower than expected yield on loans purchased at a discount to par.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayments can also occur when borrowers sell the property and use the sale proceeds to prepay the mortgage as part of a physical relocation or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property. The GSE guidelines for repurchasing delinquent loans from MBS trusts and changes in such guidelines also affect prepayment rates. Consequently, prepayment rates also may be affected by conditions in the housing and financial markets, which may result in increased delinquencies on mortgage loans, cost of capital, general economic conditions and the relative interest rates on fixed and adjustable rate loans, which could lead to an acceleration of the payment of the related principal.

The adverse effects of prepayments may affect us in various ways. Particular investments may under-perform relative to any hedges that we may have constructed for these assets, resulting in a loss to us. Furthermore, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets, which may reduce our income in the long run. Therefore, if actual prepayment rates differ from anticipated prepayment rates, our business, financial condition and results of operations and ability to make distributions to our stockholders could be materially adversely affected.

Slower prepayments may result in lower yields, current period income and cash collections as payments of interest and principal may be collected over a longer time period. While total cash collection may be higher than anticipated over the life of the loan, current period operating results could be adversely impacted.

The real estate assets and real estate-related assets we invest in are subject to the risks associated with real property.

We own real estate directly as well as assets that are secured by real estate. Real estate assets are subject to various risks, including:

- declines in the value of real estate;
- acts of nature, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;

- costs of remediation and liabilities associated with environmental conditions such as indoor mold; and

• the potential for uninsured or under-insured property losses.

The occurrence of any of the foregoing or similar events may reduce our return from an affected property or asset and, consequently, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Investments in second-lien mortgage loans could subject us to increased risk of losses.

We invest in second-lien mortgage loans or create securitizations with MBS backed by such loans. If a borrower defaults on a second lien mortgage loan or on its senior debt (i.e., a first-lien loan in the case of a residential mortgage loan), or in the event of a borrower bankruptcy, such loan will be satisfied only after all senior debt is paid in full. As a result, if we invest in second-lien mortgage loans and the borrower defaults, we may lose all or a significant part of our investment.

The allocation of capital among our mortgage loans may vary, which may adversely affect our financial performance.

In executing our business plan, we regularly consider the allocation of capital between residential mortgage loans, SBC loans and REO. The allocation of capital may vary due to market conditions, the expected relative return on equity of each, the judgment of our Manager, the demand in the marketplace for certain mortgage loans and REO and the availability of specific investment opportunities. We also consider the availability and cost of our likely sources of capital. If we fail to appropriately allocate capital and resources across mortgage loans or fail to optimize our acquisition and capital raising opportunities, our financial performance may be adversely affected.

Our use of models in connection with the valuation of our assets and determination of the timing and amount of cash flows expected to be collected subjects us to potential risks in the event that such models are incorrect, misleading or based on incomplete information.

As part of the risk management process, we use our Manager's detailed proprietary models to evaluate, depending on the asset class, house price appreciation and depreciation by county, region, prepayment speeds and foreclosure frequency, cost and timing. Models and data are used to value assets or potential assets, assess the timing and amount of cash flows expected to be collected, and may also be used in connection with any hedging of our acquisitions. Many of the models are based on historical trends. These trends may not be indicative of future results. Furthermore, the assumptions underlying the models may prove to be inaccurate, causing the models to also be incorrect. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, especially valuation or cash flow models, we may be induced to buy certain assets at prices that are too high, to sell certain other assets at prices that are too low, overestimate the timing or amount of cash flows expected to be collected, underestimate the timing or amount of cash flows expected to be collected, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful.

Valuations of some of our assets will be inherently uncertain, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed.

While in some cases our determination of the fair value of our assets will be based on valuations provided by third-party dealers and pricing services, we will value most of our assets using unobservable inputs based upon our judgment, and such valuations may differ from those provided by third-party dealers and pricing services. Valuations of certain assets are often difficult to obtain or unreliable. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. The valuation process has been particularly difficult recently because market events have made valuations of certain assets unpredictable, and the disparity of valuations provided by third-party dealers has widened.

Our business, financial condition and results of operations and our ability to make distributions to our stockholders could be materially adversely affected if our fair value measurements of these assets were materially higher than the values that would exist if a ready market existed for these assets.

The lack of liquidity of our assets may adversely affect our business, including our ability to sell our assets.

We acquire assets, securities or other instruments that are not liquid or publicly traded, and market conditions could significantly and negatively affect the liquidity of other assets.

In addition, mortgage-related assets generally experience periods of illiquidity, including the recent period of delinquencies and defaults with respect to residential and commercial mortgage loans. Further, validating third-party pricing for illiquid assets may be more subjective than for liquid assets. Any illiquidity of our assets may make it difficult for us to sell such assets if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we

may realize significantly less than the value at which we previously recorded our assets. We may also face other restrictions on our ability to liquidate any assets for which we have or could be attributed with material non-public information. If we are unable to sell our assets at favorable prices or at all, it could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. Assets that are illiquid are more difficult to finance, and to the extent that we use leverage to finance assets that become illiquid, we may lose that leverage or have it reduced. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. As a result, our ability to sell assets or vary our portfolio in response to changes in economic and other conditions may be limited by liquidity constraints, which could adversely affect our results of operations and financial condition.

An increase in interest rates may cause a decrease in the amount of certain of our target assets that are available for acquisition, which could adversely affect our ability to acquire target assets that satisfy our investment objectives and to generate income and pay dividends.

Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the amount of target assets available to us for acquisition, which could adversely affect our ability to acquire assets that satisfy our investment objectives. Rising interest rates may also cause our target assets that were issued prior to an interest rate increase to provide yields that are below prevailing market interest rates. If rising interest rates cause us to be unable to acquire a sufficient volume of our target assets with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to generate income and pay dividends may be materially and adversely affected.

An increase in interest rates may cause a decrease in the ability of our borrowers to refinance their existing mortgages, and may cause additional economic distress for borrowers with mortgages subject to changes in interest rates, causing our cash collections to decrease, and our anticipated resolution timelines to increase.

Rising interest rates may reduce the desirability of refinancing existing mortgages by increasing a borrower’s monthly payments. Rising interest rates may also cause economic distress to borrowers with mortgage terms that subject them to market-based increases in interest rates. Consequently borrowers who might otherwise have refinanced their mortgages may not be able to do so on favorable terms. And borrowers with interest-rate sensitive mortgages may experience payment increases that preclude their ability to makes such payments in a timely manner, if at all. As a result, the duration of our resolution timelines may be extended, with an associated negative impact in our cash collections.

The principal and interest payments on our retained MBS are not guaranteed by any entity and, therefore, are subject to increased risks, including credit risk.

We create and retain MBS that is backed by residential mortgage loans that do not conform to the Fannie Mae or Freddie Mac underwriting guidelines. Consequently, the principal and interest on those MBS are not guaranteed by GSEs such as Fannie Mae and Freddie Mac, or securitized through Ginnie Mae. We do not currently expect to acquire third-party non-Agency MBS.

Our MBS are and will be subject to many of the risks of the respective underlying mortgage loans. A residential mortgage loan is typically secured by a single-family residential property and is subject to risks of delinquency and foreclosure and risks of loss. The ability of a borrower to repay a loan secured by a residential property depends upon the income or assets of the borrower. A number of factors, including a general economic downturn, unemployment, acts of God, terrorism, social unrest and civil disturbances, may impair borrowers’ abilities to repay their mortgage loans. In periods following home price declines, “strategic defaults” (decisions by borrowers to default on their mortgage loans despite having the ability to pay) also may become more prevalent.

In the event of defaults under mortgage loans backing any of our retained MBS, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan. Additionally, in the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan. If borrowers default on the mortgage loans backing

our MBS and we are unable to recover any resulting loss through the foreclosure process, our business, financial condition and results of operations and our ability to make distributions to our stockholders could be materially adversely affected.

The Servicer's operations are heavily regulated at the U.S. federal, state and local levels and its failure to comply with applicable regulations could materially adversely affect our expenses and results of operations, and there is no assurance that we could replace the Servicer with servicers that satisfy our requirements or with whom we could enter into agreements on satisfactory terms.

On January 26, 2018, we acquired a 4.9% equity interest in the parent company of our Servicer which we expect to increase to 8.0%, and we also own warrants to purchase additional equity interests. The Servicer must comply with a wide array of U.S. federal, state and local laws and regulations that regulate, among other things, the manner in which it services our mortgage loans and manages our real property in accordance with the Servicing Agreement, including recent CFPB mortgage servicing regulations promulgated pursuant to the Dodd-Frank Act. These laws and regulations cover a wide range of topics such as licensing; allowable fees and loan terms; permissible servicing and debt collection practices; limitations on forced-placed insurance; special consumer protections in connection with default and foreclosure; and protection of confidential, nonpublic consumer information (privacy). The volume of new or modified laws and regulations has increased in recent years, and states and individual cities and counties continue to enact laws that either restrict or impose additional obligations in connection with certain loan origination, acquisition and servicing activities in those cities and counties. The laws and regulations are complex and vary greatly among the states and localities, and in some cases, these laws are in direct conflict with each other or with U.S. federal law. In addition, these laws and regulations often contain vague standards or requirements, which make compliance efforts challenging. Material changes in these rules and regulations could increase our expenses under the Servicing Agreement. From time to time, the Servicer may be party to certain regulatory inquiries and proceedings, which, even if unrelated to the residential mortgage servicing operation, may result in adverse findings, fines, penalties or other assessments and may affect adversely its reputation. The Servicer’s failure to comply with applicable laws and regulations could adversely affect our expenses and results of operations. If we were to determine to change servicers, there is no assurance that we could find servicers that satisfy our requirements or with whom we could enter into agreements on satisfactory terms. The Servicer’s failure to comply with these laws and regulations could also indirectly result in damage to our reputation in the industry and adversely effect our ability to affect our business plan.

The failure of the Servicer to service our assets effectively would materially and adversely affect us.

We rely on the Servicer to service and manage our assets, including managing collections on our whole mortgage loans and the mortgage loans underlying our retained MBS. If the Servicer is not vigilant in encouraging borrowers to make their monthly payments, the borrowers may be far less likely to make these payments, which could result in a higher frequency of default. If the Servicer takes longer than we expect to liquidate non-performing assets, our losses may be higher than originally anticipated. We also rely on the Servicer to provide all of our property management, lease management and renovation management services associated with the real properties we acquire upon conversion of residential mortgage loans that we own or that we acquire directly. The failure of the Servicer to effectively service our mortgage loans assets, including the mortgage loans underlying any MBS we may own, REO and other real estate-related assets could negatively impact the value of our investments and our performance.

We rely on the Servicer for our loss mitigation efforts relating to mortgage loan assets, which loss mitigation efforts may be unsuccessful or not cost-effective.

We depend on a variety of services provided by the Servicer, including, among other things, to collect principal and interest payments on our whole mortgage loans as well as the mortgage loans underlying our retained MBS and to perform loss mitigation services. In addition, legislation and regulation that have been enacted or that may be enacted in order to reduce or prevent foreclosures through, among other things, loan modifications, may reduce the value of mortgage loans. Mortgage servicers may be required or incentivized by the U.S. Government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the owners of the mortgage loans. In addition to legislation and regulation that establishes requirements or creates financial incentives for mortgage loan servicers to modify loans and take other actions that are intended to prevent foreclosures, federal legislation has also been adopted that creates a safe harbor from liability to creditors for servicers that undertake loan modifications and other actions that are intended to prevent foreclosures. Finally, recent laws and regulations, including CFPB regulations, delay the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans or otherwise limit the ability of mortgage servicers to take actions that may be essential to preserve the value of the mortgage loans underlying the MBS. Any such limitations are likely to cause delayed or reduced collections from mortgagors and generally increase servicing costs. As a result of these legislative and regulatory actions, the Servicer may not perform in our best interests or up to our expectations, which could materially adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Certain mortgage loans our Servicer services are higher risk loans, which are more expensive to service than conventional mortgage loans.

Certain mortgage loans our Servicer services are higher risk loans, meaning that the loans are made to less credit worthy borrowers or for properties the value of which has decreased. These loans are more expensive to service because they require more frequent interaction with customers and greater monitoring and oversight. Additionally, in connection with the ongoing mortgage market reform and regulatory developments, servicers of higher risk loans are subject to increased scrutiny by state and federal regulators and will experience higher compliance costs, which could result in a further increase in servicing costs. Our Servicer may not be able to pass along any of the additional expenses it incurs in servicing higher risk loans to its

servicing clients. The greater cost of servicing higher risk loans, which may be further increased through regulatory reform, consent decrees or enforcement, could adversely affect ours' and our Servicer's business, financial condition and results of operations.

We may be affected by deficiencies in foreclosure practices of third parties, as well as related delays in the foreclosure process.

There continues to be uncertainty regarding the timing and ability of servicers to remove delinquent borrowers from their homes, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to owners of the mortgage loans or related MBS. Given the magnitude of the housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures (such as "robo-signing"), mortgage servicers are being held to much higher foreclosure-related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures) throughout the origination, warehouse and securitization processes, mortgage servicers may have difficulty furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure-related costs. Foreclosure-related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside of servicers' control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non-judicial states. The Servicer's failure to remove delinquent borrowers from their homes in a timely manner could increase our costs, adversely affect the value of the property and mortgage loans and have a material adverse effect on our results of operations and business.

Changes in applicable laws or noncompliance with applicable law could materially and adversely affect us.

As an owner of real estate, we are required to comply with numerous U.S. federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord-tenant laws and other laws generally applicable to business operations. Noncompliance with laws or regulations could expose us to liability.

Lower revenue growth or significant unanticipated expenditures may result from our need to comply with changes in (i) laws imposing remediation requirements and potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord-tenant laws or (iii) other governmental rules and regulations or enforcement policies affecting the rehabilitation, use and operation of any single-family rental properties we may own, including changes to building codes and fire and life-safety codes.

Our decision whether to rent or sell any REO we acquire upon conversion of NPLs or acquire directly will depend on conditions in the relevant geographic markets, and if our assumptions about rental rates and occupancy levels in our markets are not accurate, our operating results and cash available for distribution could be adversely affected.

We either sell or rent the real property, either single-family residences or smaller commercial properties, that we acquire upon conversion of non-performing mortgage loans or directly. The success of our business model substantially depends on conditions in the applicable sales or rental markets in the relevant geographic markets, including, among other things, occupancy and rent levels. If those assumptions prove to be inaccurate, our operating results and cash available for distribution could be lower than expected, potentially materially.

Rental rates and occupancy levels for single-family residential properties have benefited in recent periods from macroeconomic trends affecting the U.S. economy and residential real estate and mortgage markets in particular, including:

- a tightening of credit that has made it more difficult to finance a home purchase, combined with efforts by consumers generally to reduce their exposure to credit;
- economic and employment conditions that have increased foreclosure rates;
- reduced real estate values that challenged the traditional notion that homeownership is a stable investment; and
- the unprecedented level of vacant housing comprising the REO owned by banks, GSEs, and other mortgage lenders or guarantors.

The single-family rental market is currently significantly larger than in historical periods. We do not expect the favorable trends in the single-family rental market to continue indefinitely. A strengthening of the U.S. economy and

job growth, together with the large supply of foreclosed single-family rental properties, the current availability of low residential mortgage rates and government-sponsored programs promoting home ownership, may contribute to a stabilization or reversal of the current trend that favors renting rather than homeownership. In addition, we expect that as investors increasingly seek to capitalize on opportunities to purchase undervalued housing properties and convert them to productive uses, the supply of

single-family rental properties will decrease and the competition for tenants will intensify. To the extent that a significant portion of our business becomes single-family rentals, a softening of the rental property market in our markets could adversely affect our operating results and cash available for distribution, potentially materially.

We may incur significant costs in restoring our properties, and we may underestimate the costs or amount of time necessary to complete restorations.

Before determining whether to rent or sell any of our properties, the Servicer will perform a detailed assessment, including an on-site review of such property, to identify the scope of restoration to be completed. Beyond customary repairs, we may undertake improvements designed to optimize overall property appeal and increase the value and rentability of the property when such improvements can be done cost effectively. To the extent properties are occupied, restorations may be postponed until the premises are vacated. We expect that nearly all of our properties will require some level of restoration immediately upon their acquisition or in the future following expiration of a lease or otherwise. We may acquire properties that we plan to restore extensively. In addition, in order to reposition properties in the rental market, we will be required to make ongoing capital improvements and may need to perform significant restorations and repairs from time to time. Consequently, we are exposed to the risks inherent in property restoration, including potential cost overruns, increases in labor and materials costs, delays by contractors in completing work, delays in the timing of receiving necessary work permits and certificates of occupancy and poor workmanship. If our assumptions regarding the cost or timing of restorations across our properties prove to be materially inaccurate, we could be materially and adversely affected.

Contingent or unknown liabilities could materially and adversely affect us.

Our acquisition activities are subject to many risks. We may acquire properties that are subject to unknown or contingent liabilities, including liabilities for or with respect to liens attached to properties, unpaid real estate taxes, utilities or other charges for which a prior owner remains liable, clean-up or remediation of environmental conditions or code violations, claims of vendors or other persons dealing with the acquired properties and tax liabilities, among other things. In each case, our acquisition may be without any, or with only limited, recourse with respect to unknown or contingent liabilities or conditions. As a result, if any such liability were to arise relating to our properties, or if any adverse condition exists with respect to our properties that is in excess of our insurance coverage, we might have to pay substantial sums to settle or cure it, which could materially and adversely affect us. The properties we acquire may also be subject to covenants, conditions or restrictions that restrict the use or ownership of such properties, including zoning laws and regulations and prohibitions on leasing or requirements to obtain the approval of home owner associations prior to leasing. We may not discover such restrictions during the acquisition process and such restrictions may adversely affect our ability to operate such properties as we intend.

Poor tenant selection and defaults by our tenants may materially and adversely affect us.

Our success with any REO that we may seek to rent will depend, in large part, upon our Servicer’s ability to attract and retain qualified tenants for our properties, whether residential or commercial. This will depend, in turn, upon our ability to screen applicants, identify good tenants and avoid tenants who may default. We will inevitably make mistakes in our selection of tenants, and we may rent to tenants whose default on our leases or failure to comply with the terms of the lease or other regulations could materially and adversely affect us and the quality and value of our properties. For example, tenants may default on payment of rent, make unreasonable and repeated demands for service or improvements, make unsupported or unjustified complaints to regulatory or political authorities, make use of our properties for illegal purposes, damage or make unauthorized structural changes to our properties that may not be fully covered by security deposits, refuse to leave the property when the lease is terminated, engage in domestic violence or similar disturbances, disturb nearby residents with noise, trash, odors or eyesores, fail to comply with applicable regulations, sub-let to less desirable individuals in violation of our leases or permit unauthorized persons to occupy the property.

In addition, defaulting tenants will often be effectively judgment-proof. The process of evicting a defaulting tenant from a family residence can be adversarial, protracted and costly. Furthermore, some tenants facing eviction may damage or destroy the property. Damage to our properties may significantly delay re-leasing after eviction, necessitate expensive repairs or impair the rental revenue or value of the property. In addition, we will incur turnover costs associated with re-leasing the properties, such as marketing expense and brokerage commissions, and will not collect revenue while the property is vacant. Although we will attempt to work with tenants to prevent such damage or

destruction, there can be no assurance that we will be successful in all or most cases. Such tenants will not only cause us not to achieve our financial objectives for the properties in which they live, but may subject us to liability, and may damage our reputation with our other tenants and in the communities where we do business.

A significant uninsured property or liability loss could have a material adverse effect on us.

We carry commercial general liability insurance and property insurance with respect to our rental properties on terms we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it economically impractical.

If an uninsured property loss or a property loss in excess of insured limits were to occur, we could lose our capital invested in a single-family rental property or group of rental properties as well as the anticipated future revenues from such single-family rental property or group of properties. If an uninsured liability to a third party were to occur, we would incur the cost of defense and settlement with or court ordered damages to that third party. A significant uninsured property or liability loss could materially and adversely affect us.

We may be required to make determinations of a borrower's creditworthiness based on incomplete information or information that we cannot verify, which may cause us to purchase or originate loans that we otherwise would not have purchased or originated and, as a result, may negatively impact our business or reputation.

The commercial real estate lending business depends on the creditworthiness of borrowers, which we must judge. In making such judgment, we may depend on information obtained from non-public sources and the borrowers in making acquisition decisions and such information may be difficult to obtain or may be inaccurate. As a result, we may be required to make decisions based on incomplete information or information that is impossible or impracticable to verify. A determination as to the creditworthiness of a prospective borrower is based on a wide-range of information including, without limitation, information relating to the form of entity of the prospective borrower, which may indicate whether the borrower can limit the impact that its other activities have on its ability to pay obligations related to the SBC loan.

We may change our investment strategy, investment guidelines and asset allocation without notice or stockholder consent which may result in riskier investments. In addition, our charter provides that our Board of Directors may authorize us to revoke or otherwise terminate our REIT election without the approval of our stockholders.

Our Board of Directors has the authority to change our investment strategy or asset allocation at any time without notice to or consent from our stockholders. To the extent that our investment strategy changes in the future, we may make investments that are different from, and possibly riskier than, the investments described in this annual report. A change in our investment or leverage strategy may increase our exposure to interest rate and real estate market fluctuations or require us to sell a portion of our existing investments, which could result in gains or losses and therefore increase our earnings volatility. Decisions to employ additional leverage in executing our investment strategies could increase the risk inherent in our asset acquisition strategy. Furthermore, a change in our asset allocation could result in our allocating assets in a different manner than as described in this annual report.

In addition, our charter provides that our Board of Directors may authorize us to revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to qualify as a REIT. These changes could adversely affect our financial condition, results of operations, the market value of our common stock, and our ability to make distributions to our stockholders.

Our inability to compete effectively in a highly competitive market could adversely affect our ability to implement our business strategy, which could materially and adversely affect us.

Our profitability depends, in large part, on our ability to acquire targeted assets at favorable prices. We face significant competition when acquiring RPLs and SBC loans and our other targeted assets. Our competitors include other mortgage REITs, financial companies, public and private funds, hedge funds, commercial and investment banks and residential and commercial finance companies. Many of our competitors are substantially larger and have considerably greater access to capital and other resources than we do. Furthermore, new companies with significant amounts of capital have recently been formed or have raised additional capital, and may continue to be formed and raise additional capital in the future, and these companies may have objectives that overlap with ours, which may create competition for assets we wish to acquire. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets to acquire and establish more relationships than us. We also may have different operating constraints from those of our competitors including, among others, tax-driven constraints such as those arising from our intention to qualify and maintain our qualification as a REIT and restraints imposed on us by our attempt to comply with certain exclusions from the definition of an "investment company" or other exemptions under the Investment Company Act. Furthermore, competition for assets in our targeted asset classes may lead to the price of such assets increasing, may reduce the number of attractive RPL and SBC loan investment opportunities available to us or increase the bargaining power of asset owners seeking to sell, which would increase the prices for these assets. If such events occur, our ability to implement our business strategy

could be adversely affected, which could materially and adversely affect us. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

Our ability to make distributions to our stockholders depends on our operating results, our financial condition and other factors, and we may not be able to make regular cash distributions at a fixed rate or at all under certain circumstances.

We make distributions to our stockholders in amounts such that we distribute substantially all of our taxable income in each year (subject to certain adjustments). This distribution policy enables us to avoid being subject to U.S. federal income tax

on our taxable income that we distribute to our stockholders. However, our ability to make distributions depends on our results of operations, which may experience uneven cash flow because we hold RPLs and NPLs, our earnings, applicable law, our financial condition and such other factors as our Board of Directors may deem relevant from time to time. We will declare and make distributions to our stockholders only to the extent approved by our Board of Directors.

We are highly dependent on communications and information systems operated by third parties, and systems failures could significantly disrupt our business and negatively impact our operating results.

Our business is highly dependent on communications and information systems that allow us to monitor, value, buy, sell, finance and hedge our investments. These systems are operated by third parties, including our affiliates, and, as a result, we have limited ability to ensure continued operation. In the event of systems failure or interruption, we will have limited ability to affect the timing and success of systems restoration. Any failure or interruption of our systems could cause delays or other problems in our securities trading activities which could have a material adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we, through the Servicer, may acquire and store sensitive data on our network, such as our proprietary business information and personally identifiable information of borrowers obligated on loans and our prospective and current mortgages and tenants. The secure processing and maintenance of this information is critical to our business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations and the services we provide to customers or damage our reputation, which could materially and adversely affect us.

Risks Related to Leverage and Hedging

We use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our stockholders and increase losses when economic conditions are unfavorable.

We use leverage to finance our investment operations and to enhance our financial returns and potentially to pay dividends. Sources of leverage may include bank credit facilities, warehouse lines of credit, structured financing arrangements (including securitizations) and repurchase agreements, among others. We may also seek to raise additional capital through public or private offerings of debt or equity securities, depending upon market conditions. We may use repurchase agreements to acquire certain assets, including our internally developed MBS, until we can securitize the assets. Because repurchase agreements are short-term borrowing, typically with 30- to 90-day terms although some may have terms up to 364 days, they are more subject to volatility in interest rates and lenders willingness to extend such borrowings. We currently do not expect a majority of our borrowings to be repurchase agreements or other short-term borrowings. Through the use of leverage, we may acquire positions with market exposure significantly greater than the amount of capital committed to the transaction. We intend to use leverage for the primary purpose of financing acquisitions for our portfolio and not for the purpose of speculating on changes in interest rates. We do not have a targeted debt-to-equity ratio generally or for specific asset classes, although we currently expect that our debt-to-equity ratio will be within a range of 1:1 to 3.25:1. We may, however, be limited or restricted in the amount of leverage we may employ by the terms and provisions of any financing or other agreements that we may enter into in the future, and we may be subject to margin calls as a result of our financing activity. Our ability to achieve our investment and leverage objectives depends on our ability to borrow money in sufficient amounts and on favorable terms and, as necessary, to renew or replace borrowings as they mature.

Leverage magnifies both the gains and the losses of our positions. Leverage increases our returns as long as we earn a greater return on investments purchased with borrowed funds than our cost of borrowing such funds. However, if we use leverage to acquire an asset and the value of the asset decreases, the leverage increases our losses. Even if the asset increases in value, if the asset fails to earn a return that equals or exceeds our cost of borrowing, the leverage

decreases our returns.

We may be required to post large amounts of cash as collateral or margin to secure our repurchase commitments. In the event of a sudden, precipitous drop in value of our financed assets, we might not be able to liquidate assets quickly enough to repay our borrowings, further magnifying losses. Even a small decrease in the value of a leveraged asset may require us to post additional margin or cash collateral. This may decrease the cash available to us for distributions to stockholders, which could adversely affect the price of our common stock. In addition, our debt service payments reduce cash flow available for distribution to stockholders. We may not be able to meet our debt service obligations. To the extent that we cannot meet our debt service obligations, we risk the loss of some or all of our assets to sale to satisfy our debt obligations.

To the extent we are compelled to liquidate qualifying real estate assets to repay debts, our compliance with the REIT rules regarding our assets and our sources of income could be negatively affected, which could jeopardize our ability to qualify and maintain our qualification as a REIT. Failing to qualify as a REIT would cause us to be subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income and decrease profitability and cash available for distributions to stockholders.

We may not be able to achieve our optimal leverage or target leverage ratios.

We use leverage as a strategy to increase the return to our investors. However, we may not be able to achieve our desired leverage for any of the following reasons:

- we determine that the leverage would expose us to excessive risk;
- our lenders do not make funding available to us at acceptable rates or on acceptable terms; and
- our lenders require that we provide additional collateral to cover our borrowings.

In addition, if we exceed our target leverage ratios, the potential adverse impact on our financial condition and results of operation described above may be amplified.

Non-recourse long-term financing structures such as securitizations expose us to risks that could result in losses to us.

We have used and intend to continue to use securitization and other non-recourse long-term financing for our investments if, and to the extent, available. In such structures, lenders typically have only a claim against the assets included in the securitizations rather than a general claim against the owner-entity. Prior to each such financing, we may seek to finance our investments with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to acquire, during the period that any short-term facilities are available, sufficient eligible assets or securities to maximize the efficiency of a securitization.

We also bear the risk that we may not be able to obtain new short-term facilities or may not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient eligible assets or securities for a securitization. In addition, conditions in the capital markets may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets or securities. While we retain and expect to retain the unrated equity component of securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations may increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default. Additionally, the securitization of our portfolio could magnify our exposure to losses because any equity interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses. An inability to securitize our portfolio may adversely affect our performance and our ability to grow our business.

Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us as an entity. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our investments on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

Additionally, our secured debt is structured with multiple interest rate step-ups generally beginning after an initial three-year borrowing term. While we fully intend to refinance these borrowings at lower interest rates before the step-up date is reached, we cannot guarantee that we will be able to refinance these borrowings on favorable terms, or at all, potentially exposing us to higher amounts of interest expense.

Our failure to comply with covenants contained in any debt agreement, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our operating results and our financial condition.

We may enter into debt facilities that will require us to comply with various operational, reporting and other covenants that limit us from engaging in certain types of transactions. If there were an event of default under our debt facilities that was not cured or waived, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be immediately due and payable. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or if accelerated, upon an event of default, or that we would be able to refinance or restructure the payments on those debt instruments.

Hedging against interest rate changes and other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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Subject to qualifying and maintaining our qualification as a REIT and exemption from registration under the Investment Company Act, we may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity would vary in scope based on the level and volatility of interest rates, the types of liabilities and assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related assets or liabilities being hedged;
- to the extent hedging transactions do not satisfy certain provisions of the Code or are not made through a TRS, the amount of income that a REIT may earn from hedging transactions to offset interest rate losses is limited by the Code provisions governing REITs;
- the value of derivatives used for hedging is adjusted from time to time in accordance with accounting rules to reflect changes in fair value; and downward adjustments, or “mark-to-market losses,” would reduce our stockholders’ equity;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

Our hedging transactions, which would be intended to limit losses, may actually adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

Risks Related to Regulatory and Legislative Actions

We operate in a highly regulated industry and continually changing U.S. federal, state and local laws and regulation could materially adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders.

The residential mortgage industry is highly regulated. We and our Manager are required to comply with a wide array of U.S. federal, state and local laws and regulations that regulate, among other things, the manner in which each of us conducts our businesses. These regulations directly impact our business and require constant compliance, monitoring and internal and external audits. A material failure to comply with any of these laws or regulations could subject us and our Manager to lawsuits or governmental actions and damage our reputation, which could materially adversely affect our business, financial condition and results of operations.

U.S. federal, state and local governments have recently proposed or enacted numerous new laws, regulations and rules related to mortgage loans, including servicing and collection of mortgage loans. Laws, regulations, rules and judicial and administrative decisions relating to mortgage loans include those pertaining to Real Estate Settlement Procedures ("RESPA"), equal credit opportunity, fair lending, fair credit reporting, truth in lending, fair debt collection practices, service members protections, compliance with net worth and financial statement delivery requirements, compliance with U.S. federal and state disclosure and licensing requirements, the establishment of maximum interest rates, finance charges and other charges, qualified mortgages, secured transactions, payment processing, escrow, loss mitigation, collection, foreclosure, repossession and claims-handling procedures, and other trade practices and privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers. Our service providers, including the Servicer and outside foreclosure counsel retained to process foreclosures, must also comply with many of these legal requirements.

In particular, the Dodd-Frank Act represents a comprehensive overhaul of the financial services industry in the United States and includes, among other things (i) the creation of a Financial Stability Oversight Council to identify emerging systemic risks posed by financial firms, activities and practices, and to improve cooperation among U.S. federal agencies, (ii) the creation of the CFPB, authorized to promulgate and enforce consumer protection regulations relating to financial products and services, including mortgage lending and servicing, and to exercise supervisory authority over participants in mortgage lending and mortgage servicing, (iii) the establishment of strengthened capital and prudential standards for banks and bank holding companies, (iv) enhanced regulation of financial markets, including the derivatives and securitization markets, and (v) amendments to the TILA, and the RESPA, aimed at improving consumer protections with respect to mortgage originations and mortgage servicing, including disclosures, originator compensation, minimum repayment standards, prepayment considerations, appraisals and loss mitigation and other

servicing requirements.

In addition, although we do not intend to acquire MBS in which the underlying mortgage loans are guaranteed or insured by any GSE or U.S. Governmental agency, actions taken by or proposed to be taken by, among others, FHFA, the U.S. Treasury, the Federal Reserve Board or other U.S. governmental agencies that are intended to regulate the origination, underwriting guidelines, servicing guidelines, servicing compensation and other aspects of mortgage loans guaranteed by the GSEs or U.S. governmental agencies (known as "Agency RMBS") can have indirect and sometimes direct effects on our business and business model, results of operations and liquidity. For example, loan originators and servicers, investors and other participants in the mortgage securities markets may use regulatory guidelines intended for Agency RMBS as guidelines or operating procedures in respect of non-Agency RMBS. In addition, changes in underwriting guidelines for Agency RMBS generally affect the supply of similar or complementary non-Agency RMBS.

Our or our Manager's failure to comply or cause the Servicer to comply with these laws, regulations and rules may result in reduced payments by borrowers, modification of the original terms of mortgage loans, permanent forgiveness of debt, delays in the foreclosure process, increased servicing advances, litigation, enforcement actions, and repurchase and indemnification obligations.

We expect that legislative and regulatory changes will continue in the foreseeable future, which may increase our operating expenses, either to comply with applicable law, to deal with regulatory examinations or investigations, or to satisfy our lenders and investors that we are in compliance with those laws, regulations and rules that are applicable to our business. Any of these new, or changes in, laws, regulations or rules could adversely affect our business, financial condition and results of operations.

Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans. In the event that any such licensing requirement is applicable and we are not able to obtain such licenses in a timely manner or at all, our ability to implement our business strategy could be adversely affected, which could materially and adversely affect us.

Certain jurisdictions require a license to purchase, hold, enforce or sell residential mortgage loans. We currently do not hold any such licenses, and there is no assurance that we will be able to obtain them or, if obtained, that we will be able to maintain them. In connection with these licenses we would be required to comply with various information reporting and other regulatory requirements to maintain those licenses, and there is no assurance that we will be able to satisfy those requirements on an ongoing basis. Our failure to obtain or maintain such licenses or our inability to enter into another regulatory-compliant structure, such as establishing a trust with a federally chartered bank as trustee to purchase and hold the residential mortgage loans, could restrict our ability to invest in loans in these jurisdictions if such licensing requirements are applicable. In lieu of obtaining such licenses, we may contribute our acquired RPLs to one or more wholly owned trusts whose trustee is a national bank, which may be exempt from state licensing requirements, or the seller of such loans may continue to hold the loans on our behalf until we obtain the applicable state license. If required, we will form one or more subsidiaries that will apply for necessary state licenses. If these subsidiaries obtain the required licenses, any trust holding loans in the applicable jurisdictions may transfer such loans to such subsidiaries, resulting in these loans being held by a state-licensed entity. There can be no assurance that we will be able to obtain the requisite licenses in a timely manner or at all or in all necessary jurisdictions, or that the use of the trusts will reduce the requirement for licensing, any of which could limit our ability to invest in residential mortgage loans. Our failure to obtain and maintain required licenses may expose us to penalties or other claims and may affect our ability to acquire an adequate and desirable supply of mortgage loans to conduct our securitization program and, as a result, could harm our business.

We could be subject to liability for potential violations of predatory lending laws, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Residential mortgage loan originators and servicers are required to comply with various U.S. federal, state and local laws and regulations, including anti-predatory lending laws and laws and regulations imposing certain restrictions on requirements on "high cost" loans. Failure of our Manager or service providers to comply with these laws could subject us, as an assignee or purchaser of the related residential mortgage loans, to monetary penalties and could result in impairment in the ability to foreclose such loans or the borrowers rescinding the affected residential mortgage loans. Lawsuits have been brought in various states making claims against assignees or purchasers of high cost loans for violations of state law. Named defendants in these cases have included numerous participants within the secondary

mortgage market. If the loans are found to have been originated in violation of predatory or abusive lending laws, we could incur losses, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Changes to U.S. federal income tax laws could materially and adversely affect us and our stockholders.

The present U.S. federal income tax treatment of REITs and their shareholders may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in our shares. The U.S. federal income tax rules, including those dealing with REITs, are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations.

The recently enacted U.S. federal tax legislation, commonly known as the Tax Cuts and Jobs Act ("TCJA"), makes substantial changes to the Code. Among those changes are a significant permanent reduction in the generally applicable corporate tax rate, a temporary reduction in the highest marginal income tax rate applicable to individuals subject to a "sunset" provision, the elimination or modification of various currently allowed deductions (including substantial limitations on the deductibility of interest), certain additional limitations on the deduction of net operating losses and preferential effective rates of taxation on most ordinary REIT dividends and certain business income derived by non-corporate taxpayers in comparison to other ordinary income recognized by such taxpayers. The effect of these, and the many other, changes made in the TCJA is highly uncertain, both in terms of their direct effect on the taxation of an investment in our common stock and their indirect effect on the value of our assets or shares of our common stock or market conditions generally. Furthermore, many of the provisions of the TCJA will require guidance through the issuance of Treasury regulations in order to assess their effect. There may be a substantial delay before such regulations are promulgated, increasing the uncertainty as to the ultimate effect of the statutory amendments on us. There may also be technical corrections legislation proposed with respect to the TCJA, the effect and timing of which cannot be predicted and which may be adverse to us or our stockholders.
Among other amendments, the TCJA effected the following changes (generally effective for taxable years beginning after December 31, 2017, unless otherwise indicated):
For taxable years that begin after December 31, 2017, and before January 1, 2026: (i) the U.S. federal income tax brackets generally applicable to ordinary income of individuals, trusts and estates have been modified, and (ii) stockholders that are individuals, trusts or estates are generally entitled to a deduction equal to 20% of the aggregate amount of ordinary income dividends received from a REIT (i.e., not including dividends that are eligible for the reduced rates applicable to "qualified dividend income" or treated as capital gain dividends), subject to certain limitations.
The U.S. federal income tax rate applicable to corporations has been reduced to 21% (from the previous maximum rate of 35%), and the alternative minimum tax has been repealed for corporations. In addition, the maximum withholding rate on distributions by us to non-U.S.stockholders that are attributable to gain from the disposition of a U.S. real property interest is reduced from 35% to 21%.
There are new limitations on the deductibility of interest expense and net operating losses, which may affect the deductibility of interest paid or accrued by, or net operating losses generated by, us or our TRSs or other subsidiaries. Certain of the limitations applicable to net operating losses apply to losses arising in taxable years ending after December 31, 2017.
A U.S. tax-exempt stockholder that is subject to tax on its unrelated business taxable income ("UBTI") will be required to segregate its taxable income and loss for each unrelated trade or business activity for purposes of determining its UBTI.
New rules have been enacted that in some circumstances may accelerate the recognition of certain income items.

Risks Related to Our Management and Our Relationship with Our Manager, the Servicer and Aspen
We have conflicts of interest with our Manager, the Servicer and Aspen, and certain members of our Board of Directors, as well as our management team, have, or could have in the future, conflicts of interest due to their respective relationships with these entities, and such conflicts could be resolved in a manner adverse to us.
Conflicts between us and our Manager. Our Manager manages our business, investment activities and affairs pursuant to the Management Agreement. This agreement was not negotiated at arm's-length and, accordingly, could contain terms, including the basis of calculation of the amount of the fees payable to our Manager, that are less favorable to us than similar agreements negotiated with unaffiliated third parties. Furthermore, the calculation of our Manager's incentive fee is based on the dividends declared by our Board of Directors. In evaluating investments and other management strategies, the opportunity to earn incentive compensation may lead our Manager to place undue emphasis on the maximization of dividends at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.
As an externally managed REIT, we are entirely managed by our Manager, which negotiates all our agreements and deals with all our contractual counterparties on our behalf. For example, our Manager acts for us in connection with

the Servicing Agreement, including monitoring the performance of our Servicer under the agreement and exercising any available rights or remedies on our behalf. Our Manager and our Servicer are affiliates. Each of our officers is an officer of our Manager or the Servicer.

Conflicts between us and the Servicer. The Servicing Agreement was also not negotiated at arms'-length and could contain terms that are less favorable to us than similar agreements negotiated with unaffiliated third parties. In addition, the Servicer is generally not prohibited from providing similar services to other owners of mortgage loans and real estate assets, including other affiliates of Aspen.

Particular risks associated with our license for the name “Great Ajax.” If the Management Agreement expires or is terminated for any reason, the trademark license agreement pursuant to which we license the mark “Great Ajax” from Aspen will also terminate within 30 days. Upon any such termination, we would be required to cease doing business using the name “Great Ajax” and would have to change our corporate name, both of which could have a material adverse effect upon our business. All goodwill associated with our use of the mark “Great Ajax” is not our asset and such goodwill cannot be transferred by us to a third party. In addition, we need to obtain the consent of Aspen before we are permitted to register the licensed mark in any jurisdiction in the world. Failure to obtain such consent could have a material adverse effect on us, including our ability to expand our business into new jurisdictions.

Our Management team may engage in other activities and may have interests that conflict with ours. Our Manager and members of its management team may engage in any other business or render similar or different services to others including, without limitation, the direct or indirect sponsorship or management of other investment-based accounts or commingled pools of capital, so long as its services to us are not impaired thereby; provided that it may not engage in any such business or provide such services to any other entity that invests in the asset classes in which we intend to invest so long as we have on hand an average of $25 million in capital available for investment over the previous two fiscal quarters or our independent directors determine that we have the ability to raise capital at or above our most recent book value. If this occurs, our Manager or members of its management team may devote a disproportionate amount of time and other resources to acquire or manage properties owned by others. In addition, Aspen has agreed, for itself and its subsidiaries, including our Servicer, to similar restrictions on their ability to compete with us. We will seek to manage any potential conflicts through provisions of our agreements with them and through oversight by independent members of our Board of Directors or general dispute resolution methods. However, there can be no assurance that such measures will be effective, that we will be able to resolve all conflicts with our Manager, our Servicer and Aspen or that the resolution of any such conflicts will be no less favorable to us than if we were dealing with unaffiliated third parties.

We own a 19.8% equity interest in our Manager and a 4.9% equity interest in the parent company of our Servicer through GA-TRS. As of March 5, 2018, our two largest stockholders, Flexpoint Great Ajax Holdings LLC (“Flexpoint REIT Investor”) an affiliate of an investment fund managed by Flexpoint Ford LLC, and investors consisting of an investment fund for which Wellington Management Company LLP is the investment advisor and one or more other investment advisory clients of Wellington Management Company LLP (collectively, the “Wellington Investors”) own 10.2% and 21.5%, respectively, of our outstanding common stock (assuming redemption of our OP Units, on a 1-for-1 basis into shares of our common stock after one year of ownership). In addition, Flexpoint REIT Investor and one of the Wellington Investors each own 26.73% of our Manager, and 9.8% of Great Ajax FS LLC (“GAFS”), the parent of the Servicer, with warrants to purchase an additional equity interest in GAFS. Mr. Mendelsohn controls 50% of the manager of Aspen, which is the direct parent of our Manager and GAFS, and has certain economic and/or management rights with respect to 7.8% of the interests in Aspen. Furthermore, each of our executive officers is an executive officer of our Manager or the Servicer or both and has interests in our relationship with them that may be different from the interests of our stockholders. In particular, these individuals, other than the chief financial officer, have a direct interest in the financial success of our Manager or the Servicer, which may encourage these individuals to support strategies in furtherance of their financial success that adversely affect us. Such ownership creates conflicts of interest when such directors or members of our management team are faced with decisions that involve us and our Manager, our Servicer, Aspen or any of their respective subsidiaries. See “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” and “Item 13. Certain Relationships and Related Transactions and Director Independence — Agreements with Anchor Investors.”

Our Board of Directors has approved a very broad investment policy and guidelines for our Manager and will not review or approve each investment decision. We may change our investment policy and guidelines without stockholder consent, which may materially and adversely affect the market price of our common stock and our ability to make distributions to our stockholders.

Our Manager is authorized to follow a very broad investment policy and guidelines and, therefore, has great latitude in determining the types of assets that are proper investments for us, as well as the individual investment decisions. In the future, our Manager may make investments with lower rates of return than those anticipated under current market conditions and/or may make investments with greater risks to achieve those anticipated returns. Our Board of

Directors will periodically review our investment policy and guidelines and our investment portfolio but will not review or approve each proposed investment by our Manager unless it falls outside the scope of our previously approved investment policy and guidelines or constitutes a related party transaction.

In addition, in conducting periodic reviews, our Board of Directors relies primarily on information provided to it by our Manager. Furthermore, our Manager may use complex strategies. Transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our Board of Directors. In addition, we may change our investment policy and guidelines and targeted asset classes at any time without the consent of our stockholders, and this could result in our making investments that are different in type from, and possibly riskier than, our current investments or the

investments currently contemplated. Changes in our investment policy and guidelines and targeted asset classes may increase our exposure to interest rate risk, counterparty risk, default risk and real estate market fluctuations, which could materially and adversely affect us.

We depend on our Manager. We may not be able to retain our engagement of our Manager under certain circumstances, which could materially and adversely affect us. Termination of our Manager by us without cause is difficult and costly and our agreements with our Servicer may simultaneously terminate or be terminated, as applicable.

Our success depends upon our relationships with and the performance of our Manager and its key personnel. Key personnel may leave its employment or may become distracted by financial or operational issues in connection with their business and activities unrelated to us and over which we have no control or may fail to perform for any reason. Our Manager may engage in any other business or render similar or different services to others, including, without limitation, the direct or indirect sponsorship or management of other investment-based accounts or commingled pools of capital, so long as its services to us are not impaired thereby; provided that our Manager may not engage in any such business or provide such services to any other entity that invests in the asset classes in which we intend to invest so long as we have on hand an average of $25 million in capital available for investment over the previous two fiscal quarters or our independent directors determine that we have the ability to raise capital at or above our most recent book value. Aspen Capital has agreed for itself and its subsidiaries to similar restrictions. In the event our Manager provides its services to a competitor, it may be difficult for us to secure a suitable replacement to our Manager on favorable terms, or at all or maintain our engagement of our Manager. In the event that the Management Agreement is terminated for any reason or our Manager is unable to retain its key personnel, it may also be difficult for us to secure a suitable replacement to our Manager on favorable terms, or at all. If we terminate the Management Agreement without cause thereafter or our Manager terminates the Management Agreement due to our default in the performance of any material term of the Management Agreement, we will be required to pay a significant termination fee. In addition, the Management Agreement will automatically terminate at the same time as the Servicing Agreement if the Servicing Agreement is terminated for any reason. If the Management Agreement expires or is earlier terminated, we and our Servicer have certain rights to terminate the Servicing Agreement and the trademark license agreement will automatically terminate. The occurrence of any of the above-described events could materially and adversely affect us.

The incentive fee payable to our Manager under the Management Agreement will be payable quarterly based on the dividends declared by our Board of Directors and may cause our Manager to select investments in more risky assets to increase its incentive compensation.

Our Manager will be entitled to receive incentive compensation based upon the dividends declared by our Board of Directors in its discretion (together with the amount of distributions paid to holders of OP Units by our Operating Partnership, other than OP Units held by us as a limited partner). In evaluating investments and other management strategies, the opportunity to earn incentive compensation may lead our Manager to place undue emphasis on the maximization of dividends at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

The Servicing Agreement was not negotiated at arm’s-length.

Under the Servicing Agreement, the Servicer provides us with critically important services, including, among many others, the servicing of our whole mortgage loans, including the mortgage loans underlying our MBS, loan modification services, assisted deed-in-lieu of foreclosure services, assisted deed-for-lease services and other loss mitigation services with respect to our mortgage loans and property management, leasing management and renovation management services with respect to our real property assets and assistance in finding third party financing for such properties. The Servicing Agreement has an initial term of 15 years. Neither we nor the Servicer may terminate the Servicing Agreement without cause during the first 24 months of its term. Following such 24-month period, we may not terminate the Servicing Agreement except for cause or if we terminate the Management Agreement for cause. Following such 24-month period, the Servicer may terminate the Servicing Agreement without cause by providing written notice to us no later than 180 days prior to December 31 of any year, and the Servicing Agreement will terminate effective on the December 31 next following the delivery of such notice. The Servicing Agreement also

provides that the Servicer may terminate the agreement within 180 days after receiving notice that the Management Agreement has terminated, without any termination payment by us if the Management Agreement has been terminated for cause. If the Management Agreement has been terminated other than for cause and the Servicer terminates the Servicing Agreement, we will be required to pay a significant termination fee. The Management Agreement will automatically terminate at the same time as the Servicing Agreement if the Servicing Agreement is terminated for any reason. Upon any termination of the Servicing Agreement, it may be difficult for us to secure suitable replacements or we may secure alternative servicers with less effective servicing platforms or at greater expense. In addition, the Servicer has no liability to us for its negligence in performing services for us under the Servicing Agreement, unless that negligence rises to the level of gross negligence or willful misconduct. The material terms of the Servicing Agreement are further described in “Item 1. Business —

The Servicer.” The Servicing Agreement was not negotiated at arms’-length; accordingly, it may contain terms that are less favorable to us than agreements negotiated with one or more unaffiliated third parties might contain.

Failure of our Servicer to effectively perform its obligations under the Servicing Agreement could materially and adversely affect us.

We are contractually obligated to service the residential mortgage loans that we acquire and we must operate or provide for the operation of the real estate assets we will own. We do not have any employees, a servicing platform, licenses or technical resources necessary to service our acquired loans. Consequently, we have engaged our Servicer to service our mortgage loans and other real estate assets. If for any reason our Servicer is unable to service these loans or real estate assets at the level and/or the cost that we anticipate, or if we fail to pay our Servicer or otherwise default under the Servicing Agreement, and our Servicer ceases to act as our servicer, alternate service providers may not be readily available on favorable terms, or at all, which could adversely affect our Manager’s performance under the Management Agreement and our business and results of operations. Our Servicer’s failure to perform the services under the Servicing Agreement would have a material adverse effect on us.

Pursuant to the terms of the Servicing Agreement, our Servicer is required to pay taxes, insurance and other charges when the borrower does not have sufficient funds in to pay the amounts themselves or when the loan has converted to REO. Our Servicer generally recovers these amounts from the liquidation proceeds from the underlying loans or REO. In the event our Servicer is unable to fund these borrower or REO charges, we might have to advance the funds to protect our interest in the loan or REO. This advancing in advance of receiving liquidation proceeds could place a strain on our operating capital, our Servicer’s operating capital, and our ability to invest in additional assets.

Our Manager has a contractually defined duty to us rather than a fiduciary duty.

Under the Management Agreement, our Manager has a contractual, as opposed to a fiduciary, relationship with us that limits its obligations to us to those specifically set forth in the Management Agreement. The ability of our Manager and its officers and employees to engage in other business activities may reduce the time it spends managing us. In addition, unlike the relationship we have with our directors, there is no statutory standard of conduct under the Maryland General Corporation Law (the “MGCL”) for officers of a Maryland corporation. Officers of a Maryland corporation, including our officers who are employees of our Manager, are subject to general agency principles including the exercise of reasonable care and skill in the performance of their responsibilities as well as the duties of loyalty, good faith and candid disclosure.

Risks Related to Our Organizational Structure

Maintenance of our exclusion from regulation as an investment company under the Investment Company Act imposes significant limitations on our operations.

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries is required to register as an investment company under the Investment Company Act. We are organized as a holding company and we conduct our business primarily through wholly owned subsidiaries of our Operating Partnership. Neither we nor our Operating Partnership nor Great Ajax Funding is an investment company under Section 3(a)(1)(C). The securities issued by our subsidiaries that are excluded from the definition of “investment company” under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, together with other investment securities we may own, cannot exceed 40% of the value of all our assets (excluding U.S. government securities and cash) on an unconsolidated basis. This requirement limits the types of businesses in which we may engage and the assets we may hold. Our 19.8% equity interest in our Manager and our 4.9% equity interest in the parent company of our Servicer is held by GA-TRS, which is a special purpose subsidiary of our Operating Partnership, and GA-TRS may rely on Section 3(c)(1) or Section 3(c)(7) for its Investment Company Act exclusion and, therefore, our interest in such subsidiary would constitute an “investment security” for purposes of determining whether we pass the 40% test (see “Item 1. Business — Operating and Regulatory Structure — Investment Company Act Exclusion” for additional information regarding the 40% test).

Certain of our subsidiaries may rely on the exclusion provided by Section 3(c)(5)(C) under the Investment Company Act. Section 3(c)(5)(C) of the Investment Company Act is designed for entities “primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” This exclusion generally requires that at least 55% of the entity’s assets on an unconsolidated basis consist of qualifying real estate assets and at least 80% of the entity’s assets consist of qualifying real estate assets or real estate-related assets. These requirements limit the assets those subsidiaries can own and the timing of sales and purchases of those assets.

To classify the assets held by our subsidiaries as qualifying real estate assets or real estate-related assets, we will rely on no-action letters and other guidance published by the SEC staff regarding those kinds of assets, as well as upon our analyses (in consultation with outside counsel) of guidance published with respect to other types of assets. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the SEC or its staff regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change

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in a manner that adversely affects our operations. In fact, in August 2011, the SEC published a concept release in which it asked for comments on this exclusion from regulation. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exemption from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we intend to monitor the assets of our subsidiaries regularly, there can be no assurance that our subsidiaries will be able to maintain their exclusion from registration. Any of the foregoing could require us to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common stock, the sustainability of our business model and our ability to make distributions.

Registration under the Investment Company Act would require us to comply with a variety of substantive requirements that impose, among other things:

- limitations on capital structure;
- restrictions on specified investments;
- restrictions on leverage or senior securities;
- restrictions on unsecured borrowings;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

If we were required to register as an investment company but failed to do so, we could be prohibited from engaging in our business, and criminal and civil actions could be brought against us.

Registration with the SEC as an investment company would be costly, would subject us to a host of complex regulations and would divert attention from the conduct of our business, which could materially and adversely affect us. In addition, if we purchase or sell any real estate assets to avoid becoming an investment company under the Investment Company Act, our net asset value, the amount of funds available for investment and our ability to pay distributions to our stockholders could be materially adversely affected.

The ownership limit in our charter may discourage a takeover or business combination that may have benefited our stockholders.

To assist us in qualifying as a REIT, among other purposes, our charter generally limits the beneficial or constructive ownership of our (a) common stock by any person to no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock and (b) capital stock by any person to no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our capital stock. We have waived these ownership limits, to a certain extent, for Flexpoint REIT Investor, the Wellington Investors and certain other investors. This and other restrictions on ownership and transfer of our shares of stock contained in our charter may discourage a change of control of us and may deter individuals or entities from making tender offers for our common stock on terms that might be financially attractive to you or which may cause a change in our management. In addition to deterring potential transactions that may be favorable to our stockholders, these provisions may also decrease your ability to sell our common stock.

Our stockholders' ability to control our operations is limited.

Our Board of Directors approves our major strategies, including our strategies regarding investments, financing, growth, debt capitalization, REIT qualification and distributions. Our Board of Directors may amend or revise these and other strategies without a vote of our stockholders. Further, Flexpoint REIT Investor and the Wellington Investors own significant portions of our common stock, will continue to have significant influence over us, and may have conflicts of interest with us or you now or in the future.

Certain provisions of Maryland law could inhibit a change in our control.

Certain provisions of the MGCL may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power

of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then-outstanding stock) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder became an interested stockholder, and thereafter require two supermajority stockholder votes to approve any such combination; and

- "control share" provisions that provide that a holder of our "control shares" (defined as voting shares of stock which, when aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), entitle the acquiror to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares," subject to certain exceptions) generally has no voting rights with respect to the control shares except to the extent approved by our stockholders by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We elected to opt-out of these provisions of the MGCL, in the case of the business combination provisions, by resolution of our Board of Directors exempting any business combination between us and any other person (provided that such business combination is first approved by our Board of Directors, including a majority of our directors who are not affiliates or associates of such person), and in the case of the control share provisions, pursuant to a provision in our bylaws. We may not opt back in to either of these provisions without the approval of the holders of a majority of our shares of common stock.

Our authorized but unissued common and preferred stock may prevent a change in control of the company.

Our charter authorizes us to issue additional authorized but unissued common stock and preferred stock without stockholder approval. In addition, our Board of Directors may, without stockholder approval, (i) amend our charter to increase or decrease the aggregate number of our shares of stock or the number of shares of any class or series of stock that we have authority to issue and (ii) classify or reclassify any unissued common stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, among other things, our board may establish a class or series of common stock or preferred stock that could delay or prevent a transaction or a change in control of the company that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interest.

Our charter limits the liability of our present and former directors and officers to us and our stockholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our present and former directors and officers will not have any liability to us or our stockholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment and is material to the cause of action.

In addition, our charter authorizes us to indemnify our present and former directors and officers for actions taken by them in those and other capacities to the maximum extent permitted by Maryland law and our bylaws require us to indemnify our present and former directors and officers, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us as a director or officer in these and other capacities. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former directors and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our stockholders may have more limited rights against our present and former directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with other companies, which could limit your recourse in the event of actions not in your best interests.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.

Our charter provides that, except pursuant to a Special Election Meeting (as defined in the charter), subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed only for "cause" (as defined in our charter), and even then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. At a Special Election Meeting, our Manager, the Servicer, Aspen Yo and our directors and officers shall not vote the shares of common stock they beneficially own in the election or removal of directors. At a Special Election Meeting, a majority of the votes entitled to be cast is required to remove a director. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum, for the full term of the

directorship in which the vacancy occurred (other than vacancies among any directors elected by the holder or holders of any class or series of preferred stock, if such right exists). These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in our control that is in the best interests of our stockholders.

Our charter generally does not permit ownership in excess of 9.8% of our common stock or of our stock of all classes and series based on value or number of shares, and attempts to acquire our stock in excess of the stock ownership limit will be ineffective unless an exemption is granted by our Board of Directors. These provisions may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares of common stock.

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. In order for us to continue to qualify as a REIT, no more than 50% of the value of our outstanding shares of capital stock (after taking into account options to acquire shares of stock) may be owned, directly or constructively, by five or fewer individuals during the last half of any calendar year. “Individuals” for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order to help us qualify as a REIT, among other purposes, our charter generally limits the beneficial or constructive ownership of our (a) common stock by any person to no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock or (b) capital stock by any person to no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our capital stock. Our Board of Directors, in its sole and absolute discretion, may grant an exemption to certain of these prohibitions, subject to certain conditions and receipt by our Board of Directors of certain representations, covenants and undertakings. Our Board of Directors waived such limit in connection with the ownership by Flexpoint REIT Investor, the Wellington Investors and certain other investors. Our Board of Directors may also from time to time increase this ownership limit for one or more persons and may decrease such limit for all other persons. Any decrease in the ownership limit generally applicable to all stockholders will not be effective for any person whose percentage ownership of our stock is in excess of such decreased ownership limit until such time as such person’s percentage ownership of our stock equals or falls below such decreased ownership limit, but any further acquisition of our stock in excess of such decreased ownership limit will be in violation of the decreased ownership limit. Our Board of Directors may not increase the decreased ownership limit (whether for one person or all stockholders) if such increase would allow five or fewer individuals (including certain entities) to beneficially own more than 49.9% in value of our outstanding capital stock.

Our charter’s constructive ownership rules are complex and may cause the outstanding shares of our stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding shares of any class or series of our stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding shares of our common stock or of our stock of all classes and series and thus violate the ownership limits or other restrictions on ownership and transfer of our stock. Any attempt by a stockholder to own or transfer our stock in excess of the ownership limit without the consent of our Board of Directors or in a manner that would cause us to be “closely held” under Section 856(h) of the Code (without regard to whether the stock is held during the last half of a taxable year) or would otherwise cause us to fail to qualify as a REIT will result in the stock being automatically transferred to a trustee for a charitable trust or, if the transfer to the charitable trust is not automatically effective to prevent a violation of the stock ownership limit or the restrictions on ownership and transfer of our stock, any such transfer of our shares will be void ab initio. Further, any transfer of our stock that would result in our shares being beneficially owned by fewer than 100 persons will be void ab initio.

These ownership limitations could have the effect of discouraging a takeover or other transaction in which holders of our shares of common stock might receive a premium for their shares of common stock over the then-prevailing market price or which holders might believe to be otherwise in their best interests.

Conflicts of interest could arise in the future as a result of our structure.

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our Operating Partnership or any partner thereof, on the other. Our directors and officers have duties to our company under applicable Maryland law in connection with their oversight of the management of our company. At

the same time, we, through our wholly owned subsidiary, will have fiduciary duties, as a general partner, to our Operating Partnership and to any partners thereof under Delaware law in connection with the management of our Operating Partnership. Our duties as a general partner to our Operating Partnership and any of its partners may come into conflict with the duties of our directors and officers. In the event of a conflict between the interests of our stockholders and the interests of the partners of our Operating Partnership, we will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or the partners; provided, that for so long as we own a controlling interest in our Operating Partnership, any such conflict that we, in our sole and absolute discretion, determine cannot be resolved in a manner not adverse to either our stockholders or the partners of our Operating Partnership will be resolved in favor of our stockholders. For so long as we own a controlling interest in our Operating Partnership, the limited partnership agreement of our Operating Partnership requires us to resolve such conflicts in favor of our stockholders.

Risks Related to Our Common Stock

The market price of our common stock may fluctuate, and you could lose all or part of your investment.

The stock market in general has been, and the market price of our common stock in particular will likely be, subject to fluctuation, whether due to, or irrespective of, our operating results and financial condition. Our financial performance, government regulatory action, tax laws, interest rates and market conditions in general could have a significant impact on the future market price of our common stock. Some of the other factors that could negatively affect our share price or result in fluctuations in our share price include:

- actual or anticipated variations in our quarterly operating results;
- increases in market interest rates that lead purchasers of our common stock to demand a higher yield;
- changes in our funds from operations or earnings estimates;
- changes in market valuations of similar companies;
- actions or announcements by our competitors;
- actual or perceived conflicts of interest, or the discontinuance of our strategic relationships, with our Manager, the Servicer or Aspen;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key personnel;
- actions by stockholders;
- speculation in the press or investment community;
- our ability to maintain the listing of our common stock on a national securities exchange;
- failure to qualify or maintain our qualification as a REIT; and
- failure to maintain our exemption from registration under the Investment Company Act.

The preparation of our consolidated financial statements will involve the use of estimates, judgments and assumptions, and our consolidated financial statements may be materially affected if such estimates, judgments and assumptions prove to be inaccurate.

Consolidated financial statements prepared in accordance with U.S. GAAP require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on the consolidated financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management's judgment include, but are not limited to, determining the fair value of our assets and the timing and amount of cash flows from our assets. These estimates, judgments and assumptions are inherently uncertain and, if they prove to be wrong, we face the risk that charges to income will be required. Any such charges could significantly harm our business, financial condition, results of operations and the price of our securities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the accounting estimates, judgments and assumptions that we believe are the most critical to an understanding of our future plan of operations.

If we fail to establish and maintain an effective system of internal controls, we may not be able to determine accurately our financial results or to prevent fraud.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We may in the future discover areas of internal control that need further improvement, and we cannot be certain that we will be successful in maintaining adequate control over our financial reporting and financial processes. Furthermore, as we grow our business, our internal controls will become more complex, and we will require significantly more resources to ensure that our internal controls remain effective. If we or our independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market value of our common stock. Additionally, the existence of any material weakness or significant deficiency would require management to devote significant time and incur significant expense to remediate any such material weakness or significant deficiency and management may not be able to remediate any such material weakness or significant deficiency in a timely manner, or at all.

We have not established a minimum distribution payment level and we cannot assure you of our ability to pay distributions in the future.

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To continue to qualify and maintain our qualification as a REIT and generally not be subject to U.S. federal income and excise tax, we make regular quarterly distributions to holders of our common stock out of legally available funds. Our current policy is to pay quarterly distributions that, on an annual basis, will equal all or substantially all of our net taxable income. We have not, however, established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this annual report. All distributions are made at the discretion of our Board of Directors and depend on our earnings, our financial condition, any debt covenants, qualification and maintenance of our REIT qualification, restrictions on making distributions under Maryland law and other factors as our Board of Directors may deem relevant from time to time. We may not be able to make distributions in the future and our Board of Directors may change our distribution policy in the future. We believe that a change in any one of the following factors, among others, could adversely affect our results of operations and impair our ability to pay distributions to our stockholders:

- the profitability of the assets we hold, purchase or originate;
- our ability to make profitable acquisitions and originations;
- margin calls or other expenses that reduce our cash flow;
- defaults in our asset portfolio or decreases in the value of our portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

We cannot assure you that we will achieve results that will allow us to make a specified level of cash distributions or increases in cash distributions in the future. In addition, some of our distributions may include a return of capital.

We may pay distributions from offering proceeds, borrowings or the sale of assets to the extent that distributions exceed earnings or cash flow from our investment activities.

We may pay distributions from offering proceeds, borrowings or the sale of assets to the extent that distributions exceed earnings or cash flow from our investment activities. Because our assets will consist primarily of RPLs that may not receive payments on a regular basis, we may experience uneven cash flow, making it more difficult to maintain the necessary cash to pay distributions. Such distributions would reduce the amount of cash we have available for investing and other purposes and could be dilutive to our financial results. In addition, funding our distributions from our net proceeds may constitute a return of capital to our investors, which would have the effect of reducing each stockholder's basis in its common stock.

We will incur increased costs as a result of being a public company.

As a public company with listed equity securities, we need to comply with new laws, regulations and requirements, certain corporate governance provisions of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") related regulations of the SEC and the requirements of the NYSE, with which we are not required to comply as a private company. Complying with these statutes, regulations and requirements will occupy a significant amount of time of our Board of Directors and management and will significantly increase our costs and expenses. In addition, being a public company subject to these rules and regulations requires us to incur substantial costs to increase coverage under our director and officer liability insurance.

For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to other public companies.

We are subject to reporting and other obligations under the Exchange Act. The JOBS Act contains provisions that, among other things, relax certain reporting requirements for "emerging growth companies," including certain requirements relating to accounting standards and compensation disclosure. We expect to be an "emerging growth company" as defined in the JOBS Act. For as long as we are an emerging growth company, which may be up to five full fiscal years, unlike other public companies, we will not be required to (i) provide an auditor's attestation report on the effectiveness of our system of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act, (ii) comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies under Section 102(b)(1) of the JOBS Act, (iii) comply with any new requirements adopted by the Public Company Accounting Oversight Board ("PCAOB") requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the consolidated financial statements of the issuer, (iv) comply with any new audit rules adopted by the PCAOB after April 5, 2012 unless the SEC determines otherwise, (v) provide certain

disclosure regarding executive compensation required of larger public companies or (vi) hold stockholders advisory votes on executive compensation. We have elected not to use an extended transition period for complying with new or revised accounting standards. We cannot predict whether investors will consequently find shares of our common stock less attractive, which may adversely affect the market price of our common stock.

We will continue to be an emerging growth company for the first five fiscal years after our February 2015 IPO, until one of the following occurs:

- our total annual gross revenues are $1.07 billion or more;
- we have issued more than $1 billion in non-convertible debt in the past three years[(1)], based on a rolling three-year window; or
- we become a "large accelerated filer," as defined in the Exchange Act.

(1) As of the date of this filing, we have issued approximately $970 million in non-convertible debt within the last three years.

Future sales of our common stock or other securities convertible into our common stock could cause the market value of our common stock to decline and could result in dilution of your shares.

Sales of substantial amounts of shares of our common stock could cause the market price of our common stock to decrease significantly. We cannot predict the effect, if any, of future sales of our common stock, or the availability of shares of our common stock for future sales, on the value of our common stock. Sales of substantial amounts of shares of our common stock, or the perception that such sales could occur, may adversely affect prevailing market values for our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices are shared with our Manager and are located in 9400 SW Beaverton-Hillsdale Hwy, Suite 131, Beaverton, OR 97005. The lease for these premises expires on November 30, 2019; we are not responsible for any lease costs. Our telephone number is: 503-505-5670. Our web address is www.great-ajax.com. The information on our website does not constitute a part of this annual report.

Item 3. Legal Proceedings

Neither we nor any of our affiliates are the subject of any material legal or regulatory proceedings. We and our affiliates may be involved, from time to time, in legal proceedings that arise in the ordinary course of business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our shares of common stock have been listed on the NYSE since February 13, 2015 under the symbol “AJX.” The following table sets forth, for the periods indicated, the high and low sales prices for the Company’s shares of common stock, as reported by the NYSE.

	Price Range	
Period	High	Low
2018		
First Quarter (through March 5, 2018)	$14.13	$12.27
2017		
Fourth Quarter	$14.69	$13.59
Third Quarter	$15.40	$13.65
Second Quarter	$14.60	$12.76
First Quarter	$13.61	$12.72
2016		
Fourth Quarter	$14.19	$12.61
Third Quarter	$14.48	$13.03
Second Quarter	$14.15	$11.14
First Quarter	$12.52	$9.06

Holders

As of March 5, 2018, there were 159 stockholders of record.

Dividends

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. U.S. federal income tax law requires that a REIT distribute each year an amount equal to at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain.

To satisfy the distribution requirement necessary to qualify as a REIT and to avoid paying U.S. federal tax on our income, we make regular quarterly distributions of substantially all of our REIT taxable income to holders of our common stock. Any distribution we make is at the discretion of our Board of Directors and depends upon our earnings and financial condition, qualification and maintenance of REIT status, applicable provisions of the MGCL and such other factors as our Board of Directors deems relevant. For more information regarding risk factors that could materially adversely affect our earnings and financial condition, see “Item 1A. Risk Factors.”

To the extent that cash available for distribution is less than our REIT taxable income, we could be required to sell assets, borrow funds or raise equity capital to make cash distributions or make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. We generally are not required to make distributions with respect to activities conducted through GA-TRS or any other TRS that we may form.

We anticipate that our distributions generally will be taxable as ordinary income to our stockholders, although a portion of the distributions may be designated by us as capital gain or may constitute a return of capital. We furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital or capital gains.

The following chart shows dividends declared by our Board of Directors:

Date Dividend Declared	Dividend Amount	Record Date	Dividend Payment Date
February 21, 2018	$0.30	March 15, 2018	March 30, 2018
November 6, 2017	$0.30	November 17, 2017	December 1, 2017
July 24, 2017	$0.30	August 15, 2017	August 30, 2017
April 19, 2017	$0.28	May 16, 2017	May 30, 2017
February 16, 2017	$0.25	March 15, 2017	March 31, 2017
October 27, 2016	$0.25	November 16, 2016	November 30, 2016
July 28, 2016	$0.25	August 16, 2016	August 31, 2016
April 26, 2016	$0.25	May 13, 2016	May 20, 2016
February 23, 2016	$0.24	March 11, 2016	March 24, 2016

Unregistered Sales of Securities

In private placement transactions in 2017 pursuant to Section 4(a)(2) of the Securities Act, we issued an aggregate of 122,350 shares, of our common stock to the Manager in payment of part of the quarterly management fee expense due for 2017 and the fourth quarter of 2016, and we issued our four independent directors an aggregate of 8,940 shares of our common stock in payment of part of their quarterly director fees for 2017 and the fourth quarter of 2016. Management fees are generally paid in the first or second month following the end of the calendar quarter.

PART III

Item 6. Selected Financial Data

The selected consolidated financial data below should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this annual report on Form 10-K, from which it is derived. The selected consolidated statements of income data for the years ended December 31, 2017, 2016 and 2015, as well as the selected consolidated balance sheet data as of December 31, 2017 and 2016 are derived from the audited consolidated financial statements included elsewhere in this annual report. The historical results presented below are not necessarily indicative of future results of operations.

	For the year ended December 31,		
Statements of Income ($ in thousands except per share data)	2017	2016	2015
INCOME			
Interest income	$91,424	$70,688	$47,700
Interest expense	(39,101)	(25,573)	(11,499)
Net interest income	52,323	45,115	36,201
Income from investment in Manager	423	218	198
Other income	2,049	1,364	1,169
Total income	54,795	46,697	37,568
EXPENSE			
Related party expense – loan servicing fees	8,245	6,083	3,959
Related party expense – management fee	5,340	3,949	3,353
Other fees and expenses	9,794	7,191	4,462
Total expense	23,379	17,223	11,774
Loss on debt extinguishment	1,131	565	—
Income before provision for income taxes	30,285	28,909	25,794
Provision for income taxes	131	35	2
Consolidated net income	30,154	28,874	25,792
Less: consolidated net income attributable to the non-controlling interest	1,227	1,038	1,038
Consolidated net income attributable to common stockholders	$28,927	$27,836	$24,754
Basic earnings per common share	$1.58	$1.65	$1.68
Diluted earnings per common share	$1.51	$1.65	$1.68

	As of December 31,	
Balance sheet ($ in thousands)	2017[(1)]	2016
Total assets	$1,395,738	$957,402
Total liabilities	$1,078,300	$674,679
Non-controlling interests	$27,082	$10,431
Total equity	$317,438	$282,723

(1) Mortgage loans, net include $177.1 million, Secured borrowings, net of deferred costs include $88.4 million, and Non-controlling interests includes $14.0 million from a 50% owned joint venture, which we consolidate under GAAP at December 31, 2017.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Great Ajax Corp. is a Maryland corporation that is organized and operated in a manner intended to allow us to qualify as a REIT. We primarily target RPLs, including residential mortgage loans and SBC loans. RPLs are mortgage loans on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted

pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. The SBC loans that we opportunistically purchase or originate have a principal balance of up to $5 million and are secured by multi-family residential and commercial mixed use retail/residential properties. Purchased SBC loans are generally RPLs on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. Additionally, we may invest in single-family and smaller commercial properties directly either through a foreclosure event of a loan in our mortgage portfolio or, through a direct acquisition. Historically, we have also targeted investments in NPLs. NPLs are loans on which the most recent three payments have not been made. We may acquire NPLs from time to time, either directly or with joint venture partners, and will continue to manage the NPLs on our balance sheet. We own a 19.8% equity interest in the Manager and a 4.9% equity interest in the parent company of our Servicer. GA-TRS is a wholly owned subsidiary of the Operating Partnership that owns the equity interest in the Manager and the Servicer. We have elected to treat GA-TRS as a taxable REIT subsidiary under the Code. Our mortgage loans and real properties are serviced the Servicer, also an affiliated company.

In September 2014, we formed Great Ajax Funding LLC, a wholly owned subsidiary of the Operating Partnership, to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts we may form for additional secured borrowings. AJX Mortgage Trust I and AJX Mortgage Trust II are wholly owned subsidiaries of the Operating Partnership formed to hold mortgage loans used as collateral for financings under the our repurchase agreements. On February 1, 2015, we formed GAJX Real Estate LLC, as a wholly owned subsidiary of the Operating Partnership, to own, maintain, improve and sell certain REO purchased by us. We have elected to treat GAJX Real Estate LLC as a TRS under the Code.

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. Our qualification as a REIT depends upon our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code, and that our current intended manner of operation enables us to meet the requirements for taxation as a REIT for U.S. federal income tax purposes.

Market Trends and Outlook

We believe that certain cyclical trends continue to drive a significant realignment within the mortgage sector. These trends and their effects include:

- low interest rates and elevated operating costs resulting from new regulatory requirements that continue to drive sales of residential mortgage assets by banks and other mortgage lenders;
- declining home ownership due to rising prices, low inventory and increased down payment requirements that have increased the demand for single-family and multi-family residential rental properties;
- rising home prices are increasing homeowner equity and reducing the incidence of strategic default;
- low interest rates combined with rising prices has resulted in millions of homeowners being in the money to refinance;
- the Dodd-Frank risk retention rules for asset backed securities have reduced the universe of participants in the securitization markets; and
- the lack of a robust market for non-conforming mortgage loans in the aftermath of the financial crisis .
- increases in interest rates will result in lower refinancing volume and home prices increases will slow.

The current market landscape is also generating new opportunities in residential mortgage-related whole loan strategies. The origination of subprime and alternative residential mortgage loans remain substantially below 2008 levels and the qualified mortgage and ability-to-repay rule requirements have put pressure on new originations. Additionally, many banks and other mortgage lenders have increased their credit standards and down payment requirements for originating new loans.

The combination of these factors has also resulted in a significant number of families that cannot qualify to obtain new residential mortgage loans. We believe the U.S. federal regulations addressing “qualified mortgages” based, among other factors on employment status, debt-to-income level, impaired credit history or lack of savings, limit mortgage

loan availability from traditional mortgage lenders. In addition, we believe that many homeowners displaced by foreclosure or who either cannot afford to own or cannot be approved for a mortgage will prefer to live in single-family rental properties with similar characteristics and amenities to owned homes as well as smaller multi-family residential properties. In certain demographic areas, new households are being formed at a rate that exceeds the new homes being added to the market, which we believe

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favors future demand for non-federally guaranteed mortgage financing for single-family and smaller multi-family rental properties. For all these reasons, we believe that demand for single-family and smaller multi-family rental properties will increase in the near term and remain at heightened levels for the foreseeable future.

We also believe that banks and other mortgage lenders have strengthened their capital bases and are more aggressively foreclosing on delinquent borrowers or selling these loans to dispose of their inventory. Additionally, many NPL buyers are now interested in reducing their investment duration and have begun selling RPLs.

We believe that investments in residential RPLs with positive equity provide the optimal investment value. As a result, we are currently focusing on acquiring pools of RPLs, though we may acquire NPLs from time to time, either directly or with joint venture partners, and will continue to manage the NPLs on our balance sheet.

We also believe there are significant attractive investment opportunities in the SBC loan and property markets and originate as well as purchase these loans particularly in urban areas where there is a sustainable trend of young adults desiring to live near where they work. We focus on densely populated urban areas where we expect positive economic change based on certain demographic, economic and social statistical data. The primary lenders for smaller multi-family and mixed retail/residential properties are community banks and not regional and national banks and large institutional lenders. We believe the primary lenders and loan purchasers are less interested in these assets because they typically require significant commercial and residential mortgage credit and underwriting expertise, special servicing capability and active property management. It is also more difficult to create the large pools that these primary banks, lenders and portfolio acquirers typically desire. Many community banks also remain under financial and regulatory pressure since the financial crisis and are now beginning to sell smaller commercial mortgage loans as property values have begun to increase. We continually monitor opportunities to increase our holdings of these SBC loans and properties.

Factors That May Affect Our Operating Results

Acquisitions. Our operating results depend heavily on sourcing residential RPLs and SBC loans and, to a lesser extent, of NPLs. We believe that there is currently a large supply of RPLs available to us for acquisition and we believe the available supply provides for a steady acquisition pipeline of assets since large institutions are active sellers in the market. We expect that our residential mortgage loan portfolio may grow at an uneven pace, as opportunities to acquire distressed residential mortgage loans may be irregularly timed and may involve large portfolios of loans, and the timing and extent of our success in acquiring such loans cannot be predicted. In addition, for any given portfolio of loans that we agree to acquire, we typically acquire fewer loans than originally expected, as certain loans may be resolved prior to the closing date or may fail to meet our diligence standards. The number of loans not acquired typically constitutes a small portion of a particular portfolio. In any case where we do not acquire the full portfolio, we make appropriate adjustments to the applicable purchase price.

Financing. Our ability to grow our business by acquiring residential RPLs and SBC loans depends on the availability of adequate financing, including additional equity financing, debt financing or both in order to meet our objectives. We intend to leverage our investments with debt, the level of which may vary based upon the particular characteristics of our portfolio and on market conditions. We have funded and intend to continue to fund our asset acquisitions with non-recourse secured borrowings in which the underlying collateral is not marked-to-market and employ repurchase agreements without the obligation to mark-to-market the underlying collateral to the extent available. We securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate MBS so created. The secured borrowings are structured as debt financings and not real estate investment conduit (“REMIC”) sales, and the loans included in the secured borrowings remain on our consolidated Balance Sheet. We completed the securitization transactions pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”) in which we issued notes primarily secured by seasoned, performing and non-performing mortgage loans primarily secured by first liens on one-to-four family residential properties.

To qualify as a REIT under the Code, we generally will need to distribute at least 90% of our taxable income each year (subject to certain adjustments) to our stockholders. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

Resolution Methodologies. We, through the Servicer, or our affiliates, employ various loan resolution methodologies with respect to our residential mortgage loans, including loan modification, collateral resolution and collateral

disposition. The manner in which a NPL is resolved will affect the amount and timing of revenue we will receive. Our preferred resolution methodology is to modify NPLs. Once successfully modified and there is a period of continued performance, we expect that borrowers will typically refinance these loans at or near the estimated value of the underlying property. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for us and is a socially responsible business strategy because it keeps more families in their homes. In certain circumstances, we may also consider selling these modified loans. Through historical experience, we expect that many of our NPLs will enter into foreclosure or similar proceedings, ultimately becoming REO that we can sell or convert into single-family rental properties

that we believe will generate long-term returns for our stockholders. REO property can be converted into single-family rental properties or they may be sold through REO liquidation and short sale processes. We expect the timelines for each of the different processes to vary significantly, and final resolution could take up to 48 months or longer from the loan acquisition date. The exact nature of resolution will depend on a number of factors that are beyond our control, including borrower willingness, property value, availability of refinancing, interest rates, conditions in the financial markets, regulatory environment and other factors. To avoid the 100% prohibited transaction tax on the sale of dealer property by a REIT, we may dispose of assets that may be treated as held “primarily for sale to customers in the ordinary course of a trade or business” by contributing or selling the asset to a TRS prior to marketing the asset for sale.

The state of the real estate market and home prices will determine proceeds from any sale of real estate. We will opportunistically and on an asset-by-asset basis determine whether to rent any REO we acquire, whether upon foreclosure or otherwise, we may determine to sell such assets if they do not meet our investment criteria. In addition, while we seek to track real estate price trends and estimate the effects of those trends on the valuations of our portfolios of residential mortgage loans, future real estate values are subject to influences beyond our control. Generally, rising home prices are expected to positively affect our results. Conversely, declining real estate prices are expected to negatively affect our results.

Conversion to Rental Property. From time to time we will retain an REO property as a rental property and may acquire rental properties through direct purchases at attractive prices. The key variables that will affect our residential rental revenues over the long-term will be the extent to which we acquire properties, which, in turn, will depend on the amount of our capital invested, average occupancy and rental rates in our owned rental properties. We expect the timeline to convert multi-family and single-family loans, into rental properties will vary significantly by loan, which could result in variations in our revenue and our operating performance from period to period. There are a variety of factors that may inhibit our ability, through the Servicer, to foreclose upon a residential mortgage loan and get access to the real property within the time frames we model as part of our valuation process. These factors include, without limitation: state foreclosure timelines and the associated deferrals (including from litigation); unauthorized occupants of the property; U.S. federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures that may delay the foreclosure process; U.S. federal government programs that require specific procedures to be followed to explore the non-foreclosure outcome of a residential mortgage loan prior to the commencement of a foreclosure proceeding; and declines in real estate values and high levels of unemployment and underemployment that increase the number of foreclosures and place additional pressure on the already overburdened judicial and administrative systems. We do not expect to retain a material number of single family residential properties for use as rentals. We do, however, intend to focus, on retaining multi-unit residences derived from foreclosures, or outright purchases as rentals.

Expenses. Our expenses primarily consist of the fees and expenses payable by us under the Management Agreement and the Servicing Agreement. Our Manager incurs direct, out-of-pocket costs related to managing our business, which are contractually reimbursable by us. Depreciation and amortization is a non-cash expense associated with the ownership of rental real estate properties and generally remains relatively consistent each year at an asset level since we depreciate our properties on a straight-line basis over a fixed life. Interest expense consists of the costs to borrow money.

Changes in Home Prices. As discussed above, generally, rising home prices are expected to positively affect our results, particularly as it should result in greater levels of re-performance of mortgage loans, faster refinancing of those mortgage loans, more re-capture of principal on greater than 100% LTV (loan-to-value) mortgage loans and increased recovery of the principal of the mortgage loans upon sale of any REO. Conversely, declining real estate prices are expected to negatively affect our results, particularly if the price should decline below our purchase price for the loans and especially if borrowers determine that it is better to strategically default as their equity in their homes decline. While home prices have risen to nearly pre-Great Recession levels in many parts of the United States, there are still significant regions where values have not materially increased. When we analyze loan and property acquisitions we do not take home price appreciation HPA into account except for rural properties for which we model negative HPA related to our expectation of worse than expected property condition.

We typically concentrate our investments in specific urban geographic locations in which we expect stable or better property markets, although we do not use any appreciation expectation in the performance modeling.
Changes in Market Interest Rates. With respect to our business operations, increases in interest rates, in general, may over time cause: (1) the value of our mortgage loan and MBS (retained from our secured borrowings) portfolio to decline; (2) coupons on our adjustable rate mortgages (“ARM”) and hybrid ARM mortgage loans and MBS to reset, although on a delayed basis, to higher interest rates; (3) prepayments on our mortgage loans and MBS portfolio to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts; (4) the interest expense associated with our borrowings to increase; and (5) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to increase. Conversely, decreases in interest rates, in general, may over time cause: (a) prepayments on our mortgage loan and MBS portfolio to increase, thereby accelerating the accretion of our purchase discounts; (b) the value of our mortgage loan and MBS portfolio to increase; (c) coupons on our ARM and hybrid ARM mortgage loans and MBS to

reset, although on a delayed basis, to lower interest rates; (d) the interest expense associated with our borrowings to decrease; and (e) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease.

Market Conditions. Due to the dramatic repricing of real estate assets during the most recent financial crisis and the continuing uncertainty in the direction and continuing strength of the real estate markets, we believe a void in the debt and equity capital available for investing in real estate has been created as many financial institutions, insurance companies, finance companies and fund managers face insolvency or have determined to reduce or discontinue investment in debt or equity related to real estate. We believe the dislocations in the residential real estate market have resulted or will result in an "over-correction" in the repricing of real estate assets, creating a potential opportunity for us to capitalize on these market dislocations and capital void.

We believe that in spite of the continuing uncertain market environment for mortgage-related assets, current market conditions offer potentially attractive investment opportunities for us, even in the face of a riskier and more volatile market environment, as the depressed trading prices of our target assets have caused a corresponding increase in available yields. We expect that market conditions will continue to impact our operating results and will cause us to adjust our investment and financing strategies over time as new opportunities emerge and risk profiles of our business change.

Critical Accounting Policies and Estimates

Certain of our critical accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We consider significant estimates to include expected cash flows from mortgage loans and fair value measurements. We believe that all of the decisions and assessments upon which our consolidated financial statements are and will be based were or will be reasonable at the time made based upon information available to us at that time. We have identified our most critical accounting policies to be the accounting policies associated with our mortgage-related assets and our borrowings:

Mortgage Loans

Mortgage loans, Net — Purchased mortgage loans are initially recorded at the purchase price, net of any acquisition costs at the time of acquisition and are considered asset acquisitions. As part of the determination of the bid price for mortgage loans, we use a proprietary discounted cash flow valuation model to project expected cash flows, and consider alternate loan resolution probabilities, including liquidation or conversion to REO. Observable inputs to the model include interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines, the value of underlying properties and other economic and demographic data.

Loans Acquired with Deterioration in Credit Quality — The loans we acquired have generally suffered some credit deterioration subsequent to origination. As a result, we are required to account for the mortgage loans pursuant to ASC 310-30, (Accounting for Loans with Deterioration in Credit Quality). Our recognition of interest income for loans within the scope of ASC 310-30 is based upon our having a reasonable expectation of the amount and timing of the cash flows expected to be collected. When the timing and amount of cash flows expected to be collected are reasonably estimable, we use expected cash flows to apply the interest method of income recognition.

Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. RPLs have been determined to have common risk characteristics and are accounted for as a single loan pool for loans acquired within each three-month calendar quarter. Similarly, non-performing mortgage loans have been determined to have common risk characteristics and are accounted for as a single non-performing pool for loans acquired within each three-month calendar quarter. Excluded from the aggregate pools are loans that pay in full subsequent to the acquisition closing date but prior to pooling. Any gain or loss incurred on these loans is recognized in interest income in the period the loan pays in full.

Our accounting for loans under ASC 310-30 gives rise to an accretable yield and a non-accretable amount. The excess of all undiscounted cash flows expected to be collected at acquisition over the initial investment in the loans is the accretable yield. Cash flows expected at acquisition include all cash flows directly related to the acquired loan,

including those expected from the underlying collateral. We recognize the accretable yield as interest income on a prospective level yield basis over the life of the pool. The excess of a loan's contractually required payments receivable over the amount of cash flows expected at the acquisition is the non-accretable amount. Our expectation of the amount of cash flows expected to be collected is evaluated at the end of each calendar quarter. If we expect to collect greater cash flows over the life of the pool, the accretable yield amount increases and the expected yield to maturity is adjusted on a prospective basis. If we expect to collect lower cash flows over the life of the pool, we record an impairment through the allowance for loan losses.

Loans Acquired that have not Experienced a Deterioration in Credit Quality — While we generally acquire loans that have experienced deterioration in credit quality, we may, from time to time, acquire or originate loans that have not missed a scheduled payment and have not experienced a deterioration in credit quality.

Accrual of interest on individual loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. Our policy is to stop accruing interest when a loan's delinquency exceeds 90 days. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged-off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic principal and interest payments returns and future payments are reasonably assured, in which case the loan is returned to accrual status.

An individual loan is considered to be impaired when, based on current events and conditions, it is probable we will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent. For individual loans, a troubled debt restructuring is a formal restructuring of a loan where, for economic or legal reasons related to the borrower's financial difficulties, a concession that would not otherwise be considered is granted to the borrower. The concession may be granted in various forms, including providing a below-market interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a combination of these. An individual loan that has had a troubled debt restructuring is considered to be impaired and is subject to the relevant accounting for impaired loans. Loans are tested quarterly for impairment and impairment reserves are recorded to the extent the net realizable value of the underlying collateral falls below net book value.

If necessary, an allowance for loan losses is established through a provision for loan losses charged to expenses. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans.

Real Estate

REO Property — we acquire real estate properties directly from sellers and when we foreclose on a borrower and take title to the underlying property (REO). REO is recorded at cost if purchased, or at the present value of future cash flows if obtained through foreclosure. REO we expect to actively market for sale is classified as held-for-sale. REO held-for-sale is carried at the lower of its acquisition basis, or its net realizable value (estimated fair market value less expected selling costs). We estimate fair market value using a combination of BPOs, comparable sales, appraisals, and competitive market analyses provided by local realtors subject to our judgment. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income. No depreciation or amortization expense is recognized on properties held-for-sale, while holding costs are expensed as incurred. Foreclosed property that is sold to a third party at the foreclosure sale ("Third Party Sales") is not considered REO and proceeds on these third party sales is treated as payment in satisfaction of the underlying loan. See Mortgage Loans.

Rental REO is REO not held-for-sale. Rental REO is intended to be held as long-term investments but may eventually be held-for-sale. REO is held for investment as rental property if the modeled present value of the future expected cash flows from use as a rental exceed the present value of expected cash flows from a sale. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets of three to 27.5 years. We perform an impairment analysis for all rental REO not held-for-sale using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. The cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

If the carrying amount of a held-for-investment asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using BPOs, comparable sales or realtor competitive market analysis. In some instances, appraisal information may be available and is used in addition

to other measures of fair value.

From time to time, we perform property renovations to maximize the value of REO held for sale and held for investment. Such expenditures are generally advanced by our Servicer and recovered by our Servicer when the property is liquidated (for REO property held for sale) or upon completion of the renovations (for REO property held for investment). For residential property that is rented, the carrying value, including any renovations that improve or extend the life of the asset, are accounted for at cost. The cost basis is depreciated using the straight-line method over an estimated useful life of three to 27.5 years. Interest and other carrying costs incurred during the renovation period are capitalized until the property is ready for its

intended use. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. We generally intend to limit rental activity to multifamily or multi-unit single family properties.

Debt

Secured Borrowings — We issue, through securitization trusts, callable debt secured by our mortgage loans in the ordinary course of business. The secured borrowings are structured as debt financings, and the loans remain on our balance sheet as we are the primary beneficiary of the securitization trusts, which are variable interest entities ("VIEs"). These secured borrowing VIEs are structured as pass-through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. Our exposure to the obligations of the VIEs is generally limited to our investments in the entities; the creditors do not have recourse to the primary beneficiary. Coupon interest on the debt is recognized using the accrual method of accounting. Deferred issuance costs, including original issue discount and debt issuance costs, are amortized on an effective yield basis based on the underlying cash flow of the mortgage loans. We assume the debt will be called at the specified call date for purposes of amortizing discount and issuance costs because we believe we will have the intent and ability to call the debt on the call date. Changes in the actual or projected underlying cash flows are reflected in the timing and amount of deferred issuance cost amortization.

Repurchase Facilities — We enter into repurchase financing facilities under which we nominally sell assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets at a price equal to the sold amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, repurchase transactions are generally accounted for as debt secured by the underlying assets. At the maturity of a repurchase financing, unless the repurchase financing is renewed, we are required to repay the borrowing including any accrued interest and concurrently receive back our pledged collateral from the lender. The repurchase financings are treated as collateralized financing transactions; pledged assets are recorded as assets in our consolidated balance sheets, and debt is recognized at the contractual amount. Interest is recorded at the contractual amount on an accrual basis. Costs associated with the set-up of a repurchasing contract are recorded as deferred expense at inception and amortized over the contractual life of the agreement. Any draw fees associated with individual transactions and any facility fees assessed on the amounts outstanding are recorded as deferred expense when incurred and amortized over the contractual life of the related borrowing.

Fair Value

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. A fair value hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

The fair value of mortgage loans is estimated using the Manager's proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. For valuation purposes, we disclose the fair value of REO at the lower of its acquisition basis, or its net

realizable value (estimated fair market value less expected selling costs). We estimate fair market value using BPOs, comparable sales and competitive market analyses provided by local realtors. We use net realizable value as a proxy for fair value as it represent the liquidation proceeds to us and is most comparable to the fair value disclosure for loans.

We calculate the fair value for the senior debt consolidated on our balance sheet from securitization trusts by using our Manager’s proprietary pricing model to estimate the cash flows expected to be generated from the underlying collateral with

the discount rate used in the present value calculation representing an estimate of the average rate for debt instruments with similar durations and risk factors.

Our Convertible senior notes are traded on the NYSE; the debt's fair value is determined from the NYSE closing price on the Balance Sheet date.

Recent Accounting Pronouncements

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

Emerging Growth Company

We are subject to reporting and other obligations under the Exchange Act. The Jumpstart Our Business Startups Act (the "JOBS Act") contains provisions that, among other things, relax certain reporting requirements for "emerging growth companies," including certain requirements relating to accounting standards and compensation disclosure. We expect to be an "emerging growth company" as defined in the JOBS Act. Section 107 of the JOBS Act permits an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. Nonetheless, the Company has elected not to use this extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended.

Results of Operations

For the year ended December 31, 2017, we had net income attributable to common stockholders of $28.9 million, or $1.58 per share, for basic and $1.51 for diluted common shares. For the year ended December 31, 2016, we had net income attributable to common stockholders of $27.8 million, or $1.65 per share, for both basic and diluted common shares. For the year ended December 31, 2015, we had net income attributable to common stockholders of $24.8 million, or $1.68 per share, for both basic and diluted common shares. Key items for the year ended December 31, 2017 include:

- Purchased $459.2 million of RPLs with an aggregate UPB of $526.5 million and underlying collateral value of $770.5 million, including $177.3 million of RPLs in a joint venture with a new third party institutional partner.
- Originated $8.8 million of SBC loans.
- Raised $471.7 million, net, in four separate fixed rate secured borrowings including gross proceeds of $88.9 million of secured debt consolidated on our balance sheet that is held by a joint venture partner.
- Issued $108.0 million of convertible senior notes.
- Interest income from mortgage loans and investments portfolio of $91.4 million; net interest income of $52.3 million.
- Net income attributable to common stockholders of $28.9 million.
- Basic earnings per share of $1.58 per share.
- Taxable income of $1.00 per share.
- Book value per share of $15.45 at December 31, 2017.
- Collected $173.0 million on our mortgage loan and REO portfolios through payments, payoffs and sales of REO.
- Held $53.7 million of cash and cash equivalents at December 31, 2017.

Table 1: Results of Operations

($ in thousands)	For the year ended December 31,		
	2017	2016	2015
INCOME			
Interest Income	$91,424	$70,688	$47,700
Interest expense	(39,101)	(25,573)	(11,499)
Net interest income	52,323	45,115	36,201
Income from investment in Manager	423	218	198
Other income	2,049	1,364	1,169
Total income	$54,795	$46,697	$37,568
EXPENSE			
Related party expense – loan servicing fees	$8,245	$6,083	$3,959
Related party expense – management fees	5,340	3,949	3,353
Loan transaction expenses	1,471	1,135	1,631
Professional fees	2,340	1,484	1,430
Real estate operating expenses	2,630	2,553	415
Other expense	3,353	2,019	986
Total expense	23,379	17,223	11,774
Loss on debt extinguishment	1,131	565	—
Income before provision for income taxes	$30,285	$28,909	$25,794
Provision for income taxes	131	35	2
Consolidated net income	$30,154	$28,874	$25,792
Less: consolidated net income attributable to the non-controlling interest	1,227	1,038	1,038
Consolidated net income attributable to common stockholders	$28,927	$27,836	$24,754

Net Interest Income

Our primary source of income is accretion earned on our mortgage loan portfolio offset by the interest expense incurred to fund portfolio acquisitions. Net interest income increased to $52.3 million for the year ended December 31, 2017 from $45.1 million for the year ended 2016 and $36.2 million for the year ended 2015. The key driver of increased net interest income was an increase in the balance of our mortgage loan portfolio, net of related funding costs, partially offset by lower yields on our mortgage loan pools due to extended duration of loans in the portfolio and the issuance of our Convertible senior notes (the "notes"). Overall funding costs have decreased recently as we have continued to take advantage of favorable market conditions for issuing our senior notes in secured borrowing transactions. The average balance of our mortgage loan portfolio increased to $994.1 million for the year ended December 31, 2017 from $676.4 million for the year ended 2016. Additionally, we collected $173.0 million in cash payments and proceeds on our mortgage loans and REO held-for-sale for the year ended December 31, 2017 compared to collections of $98.9 million for the year ended 2016.

The interest income detail for the years ended December 31, 2017, 2016 and 2015 are included in the table below ($ in thousands):

Table 2: Interest income detail

	For the year ended December 31,		
	2017	2016	2015
Accretable yield recognized on credit impaired loans	$89,881	$70,558	$47,699
Other Interest Income	947	120	—
Interest income earned on originated SBC loans	591	—	—
Bank Interest Income	5	10	1
Total Interest Income	$91,424	$70,688	$47,700

The average yield on our mortgage loan portfolio declined for the years ended December 31, 2017 and 2016 primarily due to an increase in the percentage of RPLs that have remained performing. RPLs generally have a longer duration than NPLs resulting in increased expected principal and interest collections over the life of the loan but lower current period income as cash collections occur over a longer period. Our average cost of funds decreased from comparable periods in 2016 and 2015. This decreased average cost of funds includes the effect of our Convertible senior notes; however, the decrease is primarily due to better execution on the issuance of our senior notes in secured borrowing transactions and lower interest expense on our repurchase agreements.
The average balance of our mortgage loan portfolio and debt outstanding for the years ended December 31, 2017 and 2016 are included in the table below ($ in thousands):
Table 3: Average Balances

	For the year ended December 31,	
	2017	2016
Mortgage loan portfolio[(1)]	$994,121	$676,364
Total debt	$818,188	$493,072

(1) The 2017 average balance for the mortgage loan portfolio is calculated using daily activity. Prior periods are calculated using monthly and quarterly averages.

Other Income
Other income increased for the year ended December 31, 2017 as compared to both the years ended 2016 and 2015 due to increases in income from the federal government's Home Affordable Modification Program ("HAMP"), increases in late fee collections and higher gains on sales of REO properties. A breakdown of Other income is provided in the table below ($ in thousands):
Table 4: Other Income

	For the year ended December 31,		
	2017	2016	2015
Late fee income	$650	$370	$106
HAMP fees	565	366	406
Net gain on sale of Property held-for-sale	506	106	259
Income from equity investments	284	340	352
Other income	44	182	46
Total Other Income	$2,049	$1,364	$1,169

Expenses
Total expenses for the year ended December 31, 2017 increased from 2016 and 2015 consistent with the overall growth in the portfolio. Loan servicing fees and Management fee increased in December 31, 2017 relative to 2016 and 2015 due to continued growth in the Company’s asset and equity bases. Professional fees and Loan Transaction expense increased over 2016 and 2015 due to increases in the volume of underlying transactions. A breakdown of Expenses is provided in the table below ($ in thousands):
Table 5: Expenses

	For the year ended December 31,		
	2017	2016	2015
Related party expense – loan servicing fees	$8,245	$6,083	$3,959
Related party expense – management fee	5,340	3,949	3,353
Other expense	3,353	2,019	986
Real estate operating expense	2,630	2,553	415
Professional fees	2,340	1,484	1,430
Loan transaction expense	1,471	1,135	1,631
Total expenses	$23,379	$17,223	$11,774

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Other expense increased for the year ended December 31, 2017, primarily due to restricted stock granted to our employees and service providers, increases in borrowing related expenses and travel expenses. Our borrowing related expenses consist primarily of costs of maintaining current BPOs for properties and loans used as collateral under the terms of our repurchase lines of credit. Travel expense is primarily incurred during due diligence prior to and subsequent to portfolio acquisition. Professional fees increased primarily as tax and audit related fees increased due to the growing number of acquired portfolios and our increased size and complexity. A breakdown of other expense is provided in the table below ($ in thousands):

Table 6: Other Expense

	For the year ended December 31,		
	2017	2016	2015
Employee and service provider share grants	$747	$285	$—
Insurance	530	531	379
Other expense	527	468	72
Borrowing related expenses	497	90	34
Travel, meals, entertainment	387	179	90
Directors' fees and grants	344	246	301
Communications	175	132	59
Taxes and regulatory expense	146	88	51
Total other expense	$3,353	$2,019	$986

Equity and Net Book Value per Share

Our net book value per share was $15.45 and $15.06 at December 31, 2017 and 2016, respectively, an increase of $0.39 due primarily to the $8.3 million net increase in equity from our year-end earnings after subtracting the effect of dividends paid, and partially from the $2.7 million conversion premium from the sale of our Convertible senior notes. While GAAP does not specifically define the parameters for calculating book value, we believe our calculation is representative of our book value on a per share basis, and our Manager believes book value per share is a valuable metric for evaluating our business. The net book value per share is calculated by dividing equity, after adjusting for the anticipated conversion of the notes into shares of common stock, and the subtraction of non-controlling equity interests, by total adjusted shares outstanding, which include OP Units (which are redeemable on a 1-for-1 basis into shares of our common stock) and shares for Manager and director fees which were approved but still unissued as of the date indicated, unvested employee and service provider stock grants and the common shares from assumed conversion of our Senior convertible notes. A breakdown of our book value per share is set forth in the table below ($ in thousands except per share amounts):

Table 7: Book Value per Share

	As of December 31,	
	2017	2016
Outstanding shares	18,588,228	18,122,387
Adjustments for:		
Operating partnership units	624,106	624,106
Unvested grants of restricted stock, and Manager and director shares earned but not issued as of the date indicated	51,082	22,012
Conversion of convertible senior notes into shares of common stock	7,047,216	—
Total adjusted shares outstanding	26,310,632	18,768,505
Equity at period end	$317,438	$ 282,723
Net increase in equity from expected conversion of convertible senior notes	105,313	—
Net adjustment for equity due to non-controlling interests	(16,314)	—
Adjusted equity	$406,437	$ 282,723
Book value per share	$15.45	$ 15.06

Mortgage Loan Portfolio

For the year ended December 31, 2017, we acquired 2,562 RPLs for an acquisition price of $459.2 million. Included in the total are 1,003 RPLs for an acquisition price of $177.3 million which were acquired in the 50/50 joint venture with a third party investor. Under GAAP we reflect 100% of the mortgage loans with an offset in our senior bonds and non-controlling interest. No NPLs were acquired during the year ended December 31, 2017. For the year ended December 31, 2016, we acquired 2,613 RPLs and 23 NPLs for acquisition prices of $432.8 million and $2.0 million, respectively.

The following table shows loan portfolio acquisitions for the years ended December 31, 2017, and 2016 ($ in thousands):

Table 8: Loan Portfolio Acquisitions (excludes loan originations)

	For the year ended December 31,	
	2017(1)	2016
RPLs		
Count	2,562	2,613
UPB	$526,472	$522,614
Purchase price	$459,228	$432,760
Purchase price % of UPB	87.2 %	82.8 %
NPLs		
Count	—	23
UPB	$—	$3,590
Purchase price	$—	$2,022
Purchase price % of UPB	— %	56.3 %

(1) Includes the impact of 1,003 mortgage loans with a purchase price of $177.3 million and UPB of $194.3 million acquired in the fourth quarter of 2017 through a 50% owned joint venture which we consolidate.

During the year ended December 31, 2017, 449 mortgage loans, representing 6.4% of our ending UPB, were liquidated. Comparatively, during the year ended 2016, 243 mortgage loans, representing 4.2% of our ending UPB, were liquidated. Our loan portfolio activity for the years ended December 31, 2017 and 2016 are presented below ($ in thousands):

Table 9: Loan Portfolio Activity

	For the year ended December 31,	
	2017	2016
Beginning carrying value[1]	$869,091	$555,174
Mortgage loan portfolio acquisitions, net cost basis	459,194	434,332
Mortgage loan portfolio originations[2]	9,083	2,472
Dispositions	—	(78,162)
Accretion recognized	89,881	70,558
Payments received, net	(153,930)	(89,769)
Reclassifications to REO	(20,294)	(25,037)
Other	516	(477)
Ending carrying value	$1,253,541	$869,091

(1) Beginning carrying value for January 1, 2016 and January 1, 2017 have been presented net of $(0.3) million and $1.5 million, respectively of borrower advances reclassified to Prepaid expenses and other assets.
(2) Amount includes $0.3 million of commercial loan draws which is considered part of portfolio originations.

Table 10: Portfolio Composition

As of December 31, 2017 and December 31, 2016, our portfolios consisted of the following ($ in thousands):

December 31, 2017[1]		December 31, 2016	
No. of Loans	6,901	No. of Loans	4,910
Total UPB	$1,465,223	Total UPB	$1,070,193
Interest-Bearing Balance	$1,370,563	Interest-Bearing Balance	$989,818
Deferred Balance[2]	$94,660	Deferred Balance[2]	$80,381
Market Value of Collateral[3]	$1,954,661	Market Value of Collateral[3]	$1,293,611
Price/Total UPB[4]	81.0 %	Price/Total UPB[4]	77.0 %
Price/Market Value of Collateral	61.7 %	Price/Market Value of Collateral	64.4 %
Weighted Average Coupon	4.33 %	Weighted Average Coupon	4.41 %
Weighted Average LTV[5]	88.0 %	Weighted Average LTV[5]	97.1 %
Weighted Average Remaining Term (months)	324	Weighted Average Remaining Term (months)	323
No. of first liens	6,879	No. of first liens	4,886
No. of second liens	22	No. of second liens	24
No. of Rental Properties	14	No. of Rental Properties	3
Market Value of Rental Properties	$1,838	Market Value of Rental Properties	$1,263
Capital Invested in Rental Properties	$1,353	Capital Invested in Rental Properties	$1,289
Price/Market Value of Rental Properties	73.6 %	Price/Market Value of Rental Properties	102.1 %
RPLs loans	95.6 %	RPLs loans	93.4 %
NPLs loans	3.5 %	NPLs loans	6.3 %
Originated SBC loans	0.9 %	Originated SBC loans	0.3 %
No. of Other REO	136	No. of Other REO	149
Market Value of Other REO[6]	$28,080	Market Value of Other REO[6]	$28,286

(1) Includes the impact of 1,003 mortgage loans with a purchase price of $177.3 million, UPB of $194.3 million and collateral value of $295.3 million acquired in the fourth quarter of 2017 through a 50% owned joint venture which we consolidate.

(2) Amounts that have been deferred in connection with a loan modification on which interest does not accrue. These amounts generally become payable at the time of maturity.

(3) As of date of acquisition.

(4) At December 31, 2017 and 2016, our loan portfolio consists of fixed rate (58.1% of UPB), ARM (10.2% of UPB) and Hybrid ARM (31.7% of UPB); and fixed rate (60.1% of UPB), ARM (11.1% of UPB) and Hybrid ARM (28.8% of UPB), respectively.

(5) UPB as of December 31, 2017 and 2016, divided by market value of collateral and weighted by the UPB of the loan.

(6) Market value of REO is based on net realizable value. Fair market value is determined based on appraisals, BPOs, or other market indicators of fair value including list price or contract price.

Table 11: Portfolio Characteristics

The following tables present certain characteristics about our mortgage loans by year of origination as of December 31, 2017 and December 31, 2016, respectively ($ in thousands):

Portfolio at December 31, 2017

	Years of Origination				
	After 2008	2006 – 2008	2001 – 2005	1990 – 2000	Prior to 1990
Number of loans	544	4,129	1,833	371	24
Unpaid principal balance	$124,301	$991,242	$320,487	$28,358	$835
Mortgage loan portfolio by year of origination	8.5 %	67.7 %	21.9 %	1.9 %	0.1 %
Loan Attributes:					
Weighted average loan age (months)	73.6	130.8	161.6	237.5	371.3
Weighted Average loan-to-value	82.2 %	91.9 %	77.6 %	64.2 %	25.5 %
Delinquency Performance:					
Current	58.3 %	58.6 %	60.6 %	47.9 %	51.6 %
30 days delinquent	9.9 %	12.5 %	11.9 %	13.8 %	10.8 %
60 days delinquent	8.0 %	7.8 %	8.4 %	8.7 %	18.1 %
90+ days delinquent	13.6 %	15.0 %	13.2 %	21.1 %	16.1 %
Foreclosure	10.2 %	6.1 %	5.9 %	8.5 %	3.4 %

Portfolio at December 31, 2016

	Years of Origination				
	After 2008	2006 – 2008	2001 – 2005	1990 – 2000	Prior to 1990
Number of loans	461	2,863	1,303	262	21
Unpaid principal balance	$94,733	$723,685	$231,093	$19,328	$1,354
Mortgage loan portfolio by year of origination	8.9 %	67.6 %	21.6 %	1.8 %	0.1 %
Loan Attributes:					
Weighted average loan age (months)	74.7	118.3	148.8	229.8	365.6
Weighted Average loan-to-value	92.9 %	105.2 %	88.3 %	65.8 %	25.6 %
Delinquency Performance:					
Current	49.8 %	47.9 %	46.8 %	40.0 %	19.2 %
30 days delinquent	14.8 %	16.0 %	17.1 %	18.8 %	62.2 %
60 days delinquent	8.3 %	9.7 %	9.7 %	6.0 %	— %
90+ days delinquent	21.3 %	16.3 %	15.8 %	25.5 %	8.9 %
Foreclosure	5.8 %	10.1 %	10.6 %	9.7 %	9.7 %

Table 12: Loans by State
The following table identifies our mortgage loans by state, number of loans, loan value, collateral value and percentages thereof at December 31, 2017 and December 31, 2016 ($ in thousands):

December 31, 2017						December 31, 2016					
State	Count	UPB	% UPB	Collateral Value(1)	% of Collateral Value	State	Count	UPB	% UPB	Collateral Value(1)	% of Collateral Value
CA	1,124	410,510	28.0 %	581,838	29.8 %	CA	809	292,319	27.3 %	384,018	29.7 %
FL	813	153,418	10.5 %	191,298	9.8 %	FL	685	135,608	12.7 %	148,413	11.5 %
TX	460	48,238	3.3 %	79,820	4.1 %	NY	276	94,939	8.9 %	122,790	9.5 %
GA	383	52,926	3.6 %	63,587	3.3 %	NJ	235	66,023	6.2 %	71,898	5.6 %
NY	341	114,223	7.8 %	170,154	8.7 %	MD	188	50,332	4.7 %	54,263	4.2 %
NJ	301	79,403	5.4 %	95,765	4.9 %	MA	176	38,762	3.6 %	45,939	3.6 %
NC	286	41,703	2.8 %	52,807	2.7 %	IL	171	34,433	3.2 %	35,136	2.7 %
MD	280	70,691	4.8 %	80,029	4.1 %	TX	296	34,054	3.2 %	49,466	3.8 %
MA	223	50,371	3.4 %	66,679	3.4 %	VA	141	30,269	2.8 %	35,769	2.8 %
IL	221	47,508	3.2 %	52,362	2.7 %	GA	222	29,649	2.8 %	33,687	2.6 %
VA	219	47,611	3.2 %	59,924	3.1 %	NC	183	25,995	2.4 %	30,553	2.4 %
PA	191	21,270	1.5 %	28,317	1.4 %	WA	92	22,196	2.1 %	26,001	2.0 %
AZ	180	30,560	2.1 %	36,862	1.9 %	AZ	117	22,180	2.1 %	23,522	1.8 %
SC	145	19,330	1.3 %	26,258	1.3 %	NV	101	20,593	1.9 %	23,445	1.8 %
WA	137	33,049	2.3 %	46,187	2.4 %	PA	141	15,577	1.5 %	18,836	1.5 %
TN	133	15,424	1.1 %	22,005	1.1 %	SC	102	13,029	1.2 %	15,870	1.2 %
NV	130	27,143	1.9 %	31,918	1.6 %	OH	102	12,885	1.2 %	12,907	1.0 %
OH	121	15,005	1.0 %	16,897	0.9 %	CO	59	12,729	1.2 %	18,643	1.4 %
MI	120	18,773	1.3 %	27,949	1.4 %	OR	60	12,124	1.1 %	16,495	1.3 %
IN	106	11,075	0.8 %	13,422	0.7 %	TN	89	10,150	0.9 %	12,250	0.9 %
MO	82	10,729	0.7 %	13,142	0.7 %	MI	74	9,879	0.9 %	11,117	0.9 %
CO	76	15,756	1.1 %	25,263	1.3 %	CT	46	8,789	0.8 %	10,396	0.8 %
OR	70	13,763	0.9 %	20,013	1.0 %	UT	44	7,903	0.7 %	9,841	0.8 %
CT	67	12,392	0.8 %	15,228	0.8 %	IN	77	7,234	0.7 %	8,108	0.6 %
MN	66	11,773	0.8 %	14,910	0.8 %	MN	37	6,646	0.6 %	8,432	0.7 %
UT	66	10,827	0.7 %	15,425	0.8 %	AL	40	6,428	0.6 %	6,338	0.5 %
LA	64	6,641	0.5 %	10,052	0.5 %	MO	43	5,400	0.5 %	5,789	0.4 %
AL	51	6,436	0.4 %	7,393	0.4 %	WI	31	4,688	0.4 %	5,141	0.4 %
KY	44	5,538	0.4 %	6,709	0.3 %	LA	36	4,203	0.4 %	4,889	0.4 %
WI	43	6,403	0.4 %	7,478	0.4 %	DE	20	3,988	0.4 %	5,343	0.4 %
OK	39	3,651	0.2 %	5,096	0.3 %	KY	30	3,688	0.3 %	3,942	0.3 %
DE	34	6,552	0.4 %	7,390	0.4 %	RI	15	3,274	0.3 %	3,259	0.3 %
NM	27	4,443	0.3 %	5,158	0.3 %	HI	11	2,690	0.3 %	3,989	0.3 %
MS	25	2,603	0.2 %	3,092	0.2 %	DC	9	2,661	0.2 %	4,292	0.3 %
HI	24	8,748	0.6 %	12,679	0.6 %	NH	13	2,636	0.2 %	3,131	0.2 %
NH	22	3,912	0.3 %	5,582	0.3 %	NM	12	2,511	0.2 %	3,121	0.2 %
KS	21	1,596	0.1 %	2,412	0.1 %	MS	22	2,026	0.2 %	2,432	0.2 %
RI	21	4,575	0.3 %	5,238	0.3 %	OK	18	1,844	0.2 %	2,080	0.2 %
WV	21	3,037	0.2 %	3,780	0.2 %	KS	14	1,358	0.1 %	1,615	0.1 %
DC	20	5,282	0.4 %	8,369	0.4 %	ID	9	1,296	0.1 %	2,095	0.2 %
IA	20	1,891	0.1 %	2,339	0.1 %	PR	10	1,258	0.1 %	1,626	0.1 %
AR	19	1,670	0.1 %	2,066	0.1 %	ME	8	1,210	0.1 %	1,119	0.1 %
ID	16	2,032	0.1 %	3,298	0.2 %	WV	12	1,167	0.1 %	1,342	0.1 %

ME	12	1,718	0.1	%	1,958	0.1	%	IA	11	938	0.1	%	1,052	0.1	%
PR	9	1,098	0.1	%	1,399	0.1	%	AR	11	905	0.1	%	1,032	0.1	%
NE	6	742	0.1	%	896	—	%	SD	3	618	0.1	%	787	—	%

December 31, 2017						December 31, 2016					
State	Count	UPB	% UPB	Collateral Value(1)	% of Collateral Value	State	Count	UPB	% UPB	Collateral Value(1)	% of Collateral Value
WY	5	609,000	0.1 %	760	— %	MT	2	364	0.1 %	485	— %
MT	4	620,000	0.1 %	905	— %	NE	3	255	0.1 %	258	— %
SD	4	733,000	0.1 %	928	— %	VT	1	254	0.1 %	208	— %
AK	4	511,000	0.1 %	760	— %	ND	2	157	— %	284	— %
ND	3	239,000	— %	400	— %	WY	1	79	— %	167	— %
VT	2	472	— %	465	— %	—	—	—	— %	—	— %
	6,901	1,465,223	100%	1,954,661	100 %		4,910	1,070,193	100%	1,293,611	100 %

(1) As of date of acquisition.

Liquidity and Capital Resources

Source and Uses of Cash

Our primary sources of cash have consisted of proceeds from our securities offerings, our secured borrowings, repurchase agreements, principal and interest payments on our loan portfolio, and sales of properties held-for-sale. Depending on market conditions, we expect that our primary financing sources will continue to include secured borrowings, repurchase agreements, and securities offerings in addition to transaction or asset specific funding arrangements and credit facilities (including term loans and revolving facilities). We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs. From time to time, we may invest with third parties and acquire interests in loans and other real estate assets through investments in joint ventures.

As of December 31, 2017, substantially all of our invested capital was in RPLs, NPLs and REO property held-for-sale. We also held approximately $53.7 million of cash and cash equivalents, an increase of $18.0 million from our balance of $35.7 million at the year ended 2016. Our average daily cash balance during the year was $43.7 million, an increase from our average daily cash balance of $37.6 million during year ended December 31, 2016.

Our operating cash outflows, including the effect of restricted cash, for the years ended December 31, 2017, 2016 and 2015 were $8.7 million, $5.2 million and $10.7 million, respectively. The primary operating cash inflow is cash interest payments on our mortgage loan pools of $46.5 million, $11.5 million and $16.8 million for the years ended December 31, 2017, 2016 and 2015, respectively. Operating cash flows are negative for all periods, however, as a result of non-cash interest income accretion of $43.4 million for the year ended December 31, 2017, $39.2 million for the year ended 2016 and $30.9 million for the year ended 2015. Though the ownership of mortgage loans and other real estate assets is our business, GAAP requires that operating cash flows do not include the cash portion of accretion that we receive through principal payments including proceeds from loans that pay in full or are liquidated in a short sale or third party sale at foreclosure or the proceeds on the sales of our property held-for-sale. These activities are all considered to be Financing activities under GAAP, and the cash flows from these activities are included in the Financing section of our Consolidated Statements of Cash Flows.

For the year ended December 31, 2017, our investing cash outflows of $372.6 million were driven primarily by acquisitions of mortgage loans offset by principal payments on and payoffs of our mortgage loan portfolio and proceeds on the sale of our property held-for-sale. For the year ended December 31, 2016, our investing cash outflows of $299.3 million were driven primarily by net mortgage loan acquisitions (net of a subsequent sale of $78.2 million of mortgage loans to an affiliate) offset by principal payments on and repayments of our mortgage loan portfolio and proceeds on the sale of our property held-for-sale. For the year ended December 31, 2015, our investing cash outflows of $321.0 million were driven primarily by acquisitions of mortgage loans offset by principal payments on and payoffs of our mortgage loan portfolio. Principal payments, payoffs and proceeds on the sale of our property held-for-sale were $173.0 million, $100.8 million and $45.9 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Our financing cash flows are driven primarily by funding used to acquire mortgage loan pools. We fund our mortgage loan pool acquisitions primarily through secured borrowings, repurchase agreements and the proceeds from our equity

offerings. For the year ended December 31, 2017, we had net financing cash inflows of $398.4 million as we issued notes, convertible into shares of common stock, for net proceeds of $105.3 million, and issued secured borrowings, secured by mortgage loans, for proceeds of $431.1 million. For the year ended 2016, we had net cash inflows from financing activities of $310.6 million driven primarily by the issuance of secured notes for proceeds of $288.4 million to fund mortgage loan acquisitions. For the year ended 2015, we had net cash inflows from financing activities of $309.5 million driven primarily by the issuance of secured notes for proceeds of $204.8 million to fund mortgage loan acquisitions. For the years ended December 31, 2017, 2016 and 2015 we paid $21.4 million, $17.1 million and $12.1 million, respectively, in combined dividends and distributions.

Financing Activities — Equity offerings
In the fourth quarter of 2017, we sold 286,841 shares of common stock for proceeds, net of issuance costs, of $4.1 million, pursuant to our At-the-Market Issuance Sales Agreements which we established in October 2016, to sell, through our agents, shares of common stock with an aggregate offering price of up to $50.0 million. In accordance with the terms of the agreements, we may offer and sell shares of our common stock at any time and from time to time through the sales agents. Sales of the shares, if any, will be made by means of ordinary brokers' transactions on the New York Stock Exchange or otherwise at market prices prevailing at the time of the sale.
Financing Activities — Borrowings and Repurchase Arrangements
During the year, we completed the issuance and sale of $108.0 million aggregate principal amount of our 7.25% Convertible senior notes due 2024, in two underwritten public offerings, with the notes from both offerings forming a single series of securities. Our net proceeds from the sale of the notes, after deducting the underwriter's discounts, commissions and offering expenses, were approximately $105.3 million. The carrying amount of the equity component of both transactions was $2.7 million representing the fair value to the notes' owners of the right to convert the notes into shares of our common stock. The notes bear interest at a rate of 7.25% per year, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year.
From inception (January 30, 2014) to December 31, 2017, we have completed 12 secured borrowings pursuant to Rule 144A under the Securities Act, seven of which were outstanding at December 31, 2017. The secured borrowings are structured as debt financings and not REMIC sales, and the loans included in the secured borrowings remain on our consolidated balance sheet as we are the primary beneficiary of the secured borrowing trusts, which are VIEs. The secured borrowing VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. Our exposure to the obligations of the VIEs is generally limited to our investments in the entities. The notes that are issued by the secured borrowing trusts are secured solely by the mortgages held by the applicable trusts and not by any of our other assets. The mortgage loans of the applicable trusts are the only source of repayment and interest on the notes issued by such trusts. We do not guarantee any of the obligations of the trusts under the terms of the agreement governing the notes or otherwise.
Our secured borrowings are generally structured with Class A notes, subordinate notes, and a trust certificate representing the residual interests in the mortgages. For each of our seven secured borrowings outstanding at December 31, 2017, we have retained the subordinate notes and the trust certificate. The Class A notes are senior, sequential pay, fixed rate notes. The Class B notes and Class M notes are subordinate, sequential pay, fixed rate notes. If the Class A notes have not been redeemed by the payment date 36 months after issue, or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the subordinate notes will be paid as principal to the Class A notes on that date and each subsequent payment date until the Class A notes are paid in full. After the Class A notes are paid in full, the subordinate notes will resume receiving their respective interest payment amounts and any interest that accrued but was not paid while the Class A notes were outstanding. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trust after the Class A notes and subordinate notes have been paid in full.

The following table sets forth the original terms of all outstanding securitization notes at their respective cutoff dates as of December 31, 2017:
Table 13: Securitizations

Issuing Trust/Issue Date	Security	Original Principal	Interest Rate
Ajax Mortgage Loan Trust 2016-A/ April 2016	Class A notes due 2064	$101.4 million	4.25 %
	Class B-1 notes due 2064(1,4)	$7.9 million	5.25 %
	Class B-2 notes due 2064(1,4)	$7.9 million	5.25 %
	Trust certificates(2)	$41.3 million	— %
	Deferred issuance costs	$(2.7) million	— %
Ajax Mortgage Loan Trust 2016-B/ August 2016	Class A notes due 2065	$84.4 million	4.00 %
	Class B-1 notes due 2065(1,4)	$6.6 million	5.25 %
	Class B-2 notes due 2065(1,4)	$6.6 million	5.25 %
	Trust certificates(2)	$34.1 million	— %
	Deferred issuance costs	$(1.6) million	— %
Ajax Mortgage Loan Trust 2016-C/ October 2016	Class A notes due 2057	$102.6 million	4.00 %
	Class B-1 notes due 2057(1,4)	$7.9 million	5.25 %
	Class B-2 notes due 2057(1,4)	$7.9 million	5.25 %
	Trust certificates(2)	$39.4 million	— %
	Deferred issuance costs	$(1.6) million	— %
Ajax Mortgage Loan Trust 2017-A/ May 2017	Class A notes due 2057	$140.7 million	3.47 %
	Class B-1 notes due 2057(1)	$15.1 million	5.25 %
	Class B-2 notes due 2057(1)	$10.8 million	5.25 %
	Trust certificates(2)	$49.8 million	— %
	Deferred issuance costs	$(2.0) million	— %
Ajax Mortgage Loan Trust 2017-B/ December 2017	Class A notes due 2056	$115.8 million	3.16 %
	Class M-1 notes due 2056(3)	$9.7 million	3.50 %
	Class M-2 notes due 2056(3)	$9.5 million	3.50 %
	Class B-1 notes due 2056(1)	$9.0 million	3.75 %
	Class B-2 notes due 2056(1)	$7.5 million	3.75 %
	Trust certificates(2)	$14.3 million	— %
	Deferred issuance costs	$(1.8) million	— %
Ajax Mortgage Loan Trust 2017-C/ November 2017	Class A notes due 2060	$130.2 million	3.75 %
	Class B-1 notes due 2060(1)	$13.0 million	5.25 %
	Trust certificates(2)	$42.8 million	— %
	Deferred issuance costs	$(1.7) million	— %
Ajax Mortgage Loan Trust 2017-D/ December 2017	Class A notes due 2057(5)	$177.8 million	3.75 %
	Class B certificates due 2057(4,5)	$44.5 million	— %
	Deferred issuance costs	$(1.1) million	— %

(1) The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. We have retained the Class B notes.

(2)

The trust certificates issued by the trusts and the beneficial ownership of the trusts are retained by Great Ajax Funding LLC as the depositor. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trusts after the Class A notes, Class M notes, where present, and Class B notes have been paid in full.

(3) The Class M notes are subordinate, sequential pay, fixed rate notes with Class M-2 notes subordinate to the Class M-1 notes. We retained the Class M notes.
(4) These securities are encumbered under a repurchase agreement.
(5) Ajax Mortgage Loan Trust ("AJAXM") 2017-D is a joint venture in which a third party owns 50% the Class A notes and 50% of the Class B certificates. We are required to consolidate 2017-D and are reflecting 100% of the mortgage loans, in Mortgage loans, net. 50% of the Class A notes are included in Secured borrowings and 50% of the Class B-1 certificates are recognized as Non-controlling interest.

Repurchase Transactions

We entered into two repurchase facilities whereby we, through two wholly-owned Delaware trusts (the “Trusts”), acquire pools of mortgage loans which are then sold by the Trusts, as “Seller” to two separate counterparties, the “buyer” or “buyers.” One facility has a ceiling of $250.0 million and the other $200.0 million at any one time. Upon the time of the initial sale to the buyer, each Trust, with a simultaneous agreement, also agrees to repurchase the pools of mortgage loans from the buyer. Mortgage loans sold under these facilities carry interest calculated based on a spread to one-month LIBOR, which are fixed for the term of the borrowing. The purchase price that the Trust realizes upon the initial sale of the mortgage loans to the buyer can vary between 70% and 85% of the asset’s acquisition price, depending upon the facility being utilized and/or the quality of the underlying collateral. The obligations of the Trust to repurchase these mortgage loans at a future date are guaranteed by the Operating Partnership. The difference between the market value of the asset and the amount of the repurchase agreement is generally the amount of equity we have in the position and is intended to provide the buyer with some protection against fluctuations in the value of the collateral, and/or a failure by us to repurchase the asset and repay the borrowing at maturity. We also entered into three repurchase facilities substantially similar to the mortgage loan repurchase facilities. However, the pledged assets are the class B bonds and certificates from our securitization transactions. We have effective control over the assets subject to these transactions; therefore our repurchase transactions are accounted for as financing arrangements.

A summary of our outstanding repurchase transactions at December 31, 2017 and 2016 follows ($ in thousands):

Table 14: Repurchase Transactions by Maturity Date

		December 31, 2017				
Maturity Date	Origination date	Maximum Borrowing Capacity	Amount Outstanding	Amount of Collateral	Percentage of Collateral Coverage	Interest Rate
April 30, 2018	October 31, 2017	$ 10,601	$ 10,601	$ 15,145	143 %	3.66 %
May 8, 2018	November 8, 2017	15,227	15,227	21,754	143 %	3.69 %
June 7, 2018	December 7, 2017	66,678	66,678	88,904	133 %	3.59 %
November 21, 2018	November 22, 2017	200,000	3,775	8,215	218 %	4.79 %
July 12, 2019	July 15, 2016	250,000	180,104	234,724	130 %	4.03 %
Totals		$ 542,506	$ 276,385	$ 368,742	133 %	3.91 %

		December 31, 2016				
Maturity Date	Origination date	Maximum Borrowing Capacity	Amount Outstanding	Amount of Collateral	Percentage of Collateral Coverage	Interest Rate
March 9, 2017	September 9, 2016	$ 10,310	$ 10,309	$ 14,728	143 %	3.32 %
March 30, 2017	September 30, 2016	10,797	10,797	15,424	143 %	3.34 %
May 8, 2017	November 9, 2016	14,986	14,986	21,409	143 %	3.35 %
November 21, 2017	November 22, 2016	200,000	21,302	36,044	169 %	4.20 %
July 12, 2019	July 15, 2016	200,000	170,046	226,192	133 %	3.25 %
Totals		$ 436,093	$ 227,440	$ 313,797	138 %	3.35 %

As of December 31, 2017, we had $276.4 million outstanding under our repurchase transactions compared to $227.4 million as of December 31, 2016. The maximum month-end balance outstanding during the year ended December 31, 2017 was $323.1 million, compared to a maximum month-end balance for the year ended 2016, of $227.4 million.

The following table presents certain details of our repurchase transactions for the years ended December 31, 2017 and 2016 ($ in thousands):

Table 15: Repurchase Balances

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	For the year ended December 31,	
	2017	2016
Balance at the end of year	$276,385	$227,440
Maximum month-end balance outstanding during the year	$323,060	$227,440
Average balance	$251,384	$127,890

The increase in our average balance from $127.9 million for the year ended December 31, 2016 to our average balance of $251.4 million for the year ended December 31, 2017 was due to a net increase in repurchase financing during the year ended December 31, 2017, as a result of additional investments in mortgage loans.

As of December 31, 2017 and 2016, we did not have any credit facilities or other outstanding debt obligations other than the repurchase facilities, secured borrowings and our Senior convertible notes.

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

We may declare dividends based on, among other things, our earnings, our financial condition, our working capital needs, new opportunities, and distribution requirements imposed on REITs. The declaration of dividends to our stockholders and the amount of such dividends are at the discretion of our Board of Directors. On February 21, 2018, our Board of Directors declared a dividend of $0.30 per share, to be paid on March 30, 2018 to stockholders of record as of March 15, 2018. Our Management Agreement with our Manager requires the payment of an incentive management fee above the amount of the base management fee if we distribute a quarterly dividend out of our taxable income on shares of our common stock in excess of 8% (on an annualized basis) of our stock's book value. Our dividend payments are driven by the amount of our taxable income, subject to IRS rules for maintaining our status as a REIT.

Our most recently declared quarterly dividend represents a payment of approximately 7.77% on an annualized basis of our book value of $15.45 per share at December 31, 2017. If future increases in our taxable income drive our dividend rate higher, we could exceed the threshold for paying an incentive fee to our Manager, and thereby trigger such payment. See Note 9 — Related party transactions.

We believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements.

Off-Balance Sheet Arrangements

Other than the trusts holding assets pledged as security against our borrowings and equity method investments discussed elsewhere in this report, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-Balance Sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

Table 16: Contractual Obligations

A summary of our contractual obligations as of December 31, 2017 and 2016 is as follows ($ in thousands):

December 31, 2017	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Convertible senior notes	$108,000	$—	$—	$—	$108,000
Borrowings under repurchase agreements	276,386	96,282	180,104	—	—
Interest on convertible senior notes	47,414	8,626	17,472	18,558	2,758
Interest on repurchase agreements	12,631	8,787	3,844	—	—
Total	$444,431	$113,695	$201,420	$18,558	$110,758

December 31, 2016	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Borrowings under repurchase agreements	$227,440	$57,394	$170,046	$ —	$ —
Interest on repurchase agreements	27,270	11,676	15,594	—	—
Total	$254,710	$69,070	$185,640	$ —	$ —

Our secured borrowings are not included in the table above as such borrowings are non-recourse to us and are only paid to the extent that cash flows from mortgage loans (in the securitization trust) collateralizing the debt are received. Accordingly, a projection of contractual maturities over the next five years is inapplicable.

Inflation

Virtually all of our assets and liabilities are interest-rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and consolidated Balance Sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Subsequent Events

During January and February 2018, we acquired 85 RPLs with an aggregate UPB of $18.9 million in three transactions. The loans were acquired at 89.3% of UPB and the estimated market value of the underlying collateral is $31.2 million. The purchase price equaled 53.9% of the estimated market value of the underlying collateral. We also acquired a 32-unit multi-family apartment building with a purchase price of $3.5 million.

Additionally, we agreed to acquire, subject to due diligence, 422 RPLs with aggregate UPB of $91.6 million in three transactions from five different sellers. The purchase price equals 95.8% of UPB and 55.8% of the estimated market value of the underlying collateral of $157.3 million. We also agreed to purchase two SBC loans with UPB of $2.7 million. The investment will equal 67.8% of the underlying collateral value of $3.9 million. Some of these loans may be acquired through joint ventures with unrelated third parties.

On January 26, 2018, we agreed to acquire an 8% ownership interest in GAFS, the parent of our servicer, Gregory Funding LLC. The acquisition is expected to be completed in two transactions. On January 26, 2018, the initial closing, we acquired a 4.9% interest in GAFS and three warrants, each exercisable for a 2.45% interest in GAFS upon payment of additional consideration, in exchange for consideration of $1.1 million of cash and 45,938 shares of our common stock. At the date of an additional closing, expected to take place approximately 121 days from January 26, we will acquire an additional 3.1% interest in GAFS, and three warrants, each exercisable for a 1.55% interest in GAFS in exchange for consideration of $0.7 million of cash and shares of our common stock with a value of approximately $0.4 million, with the actual number of shares dependent upon our common stock's price at the close of trading on the day immediately preceding the date of the additional closing.

On February 16, 2018, we issued 48,654 shares of our common stock to our Manager in payment of the portion of the base management fee which is payable in common stock for the fourth quarter of 2017 in a private transaction. The management fee expense associated with these shares was recorded as an expense in the fourth quarter of 2017.

On February 16, 2018, we issued to each of our four independent directors 607 shares of common stock in payment of half of their quarterly director fees for the fourth quarter of 2017.

On February 21, 2018, our Board of Directors declared a dividend of $0.30 per share, to be paid on March 30, 2018 to common stockholders of record as of March 15, 2018.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Real Estate Risk

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality,

age and design;

demographic factors; and retroactive changes to building or similar codes. Increases in interest rates will result in lower refinancing volume, and home price increases will slow. Decreases in property values could cause us to suffer losses.

Interest Rate Risk

We expect to continue to securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate MBS so created. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Changes in interest rates may affect the fair value of the mortgage loans and real estate underlying our portfolios as well as our financing interest rate expense. Additionally, rises in interest rates may result in a lower refinance volume of our portfolio.

We believe that a rising interest rate environment could have a positive effect on our operations to the extent we own rental real property or seek to sell real property. Rising interest rates could be accompanied by inflation and higher household incomes which generally correlate closely to higher rent levels and property values. It is possible that the value of our real estate assets and our net income could decline in a rising interest rate environment to the extent that our real estate assets are financed with floating rate debt and there is no accompanying increase in loan yield and rental yield or property values.

Prepayment Risk

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect of the mortgage loans we will own as well as the mortgage loans underlying our retained MBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. Changes in prepayment rates will have varying effects on the different types of assets in our portfolio. We attempt to take these effects into account. We will generally purchase RPLs and NPLs at discounts from UPB and underlying property values. An increase in prepayments would accelerate the repayment of the discount and lead to increased yield on our assets while also causing re-investment risk that we can find additional assets with the same interest and return levels. A decrease in prepayments would likely have the opposite effects.

Credit Risk

We are subject to credit risk in connection with our assets. While we will engage in diligence on assets we will acquire, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead us to misprice acquisitions. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors and retroactive changes to building or similar codes.

There are many reasons borrowers will fail to pay including but not limited to, in the case of residential mortgage loans, reductions in personal income, job loss and personal events such as divorce or health problems, and in the case of commercial mortgage loans, reduction in market rents and occupancies and poor property management services by borrowers. We will rely on the Servicer to mitigate our risk. Such mitigation efforts may include loan modifications and prompt foreclosure and property liquidation following a default. If a sufficient number of re-performing borrowers default, our results of operations will suffer and we may not be able to pay our own financing costs.

Item 8.

Consolidated Financial Statements and Supplementary Data

The consolidated financial statements required by this item are set forth in Item 15. of this annual report and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation 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 annual report on Form 10-K. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The evaluation of our disclosure controls and procedures included a review of the controls' objectives and design, our implementation of the controls and their effect on the information generated for use in this Form 10-K. In the course of the controls evaluation, we reviewed identified data errors, control problems or acts of fraud, and sought to confirm that appropriate corrective actions, including process improvements, were being undertaken. This type of evaluation will be performed on a quarterly basis so that the conclusions of management, including the Chief Executive Officer and Chief Financial Officer, concerning the effectiveness of the disclosure controls and procedures can be reported in our periodic reports on Form 10-Q and Form 10-K. The overall goals of these various evaluation activities are to monitor our disclosure controls and procedures, and to modify them as necessary. Our intent is to maintain the disclosure controls and procedures as dynamic systems that change as conditions warrant.

Based on the controls evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Form 10-K, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information related to our company and our consolidated subsidiaries is made known to management, including the Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared.

Management's Annual Report on Internal Controls Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, the Company's management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Based on its assessment, the Company's management believes that, as of December 31, 2017, the Company's internal control over financial reporting was effective based on those criteria. There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

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

Item 9B. Other Information

None.

PART IV

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference from the Company’s definitive proxy statement for its 2018 annual stockholders’ meeting.

Item 11. Executive Compensation

The information required by this item is incorporated by reference from the Company’s definitive proxy statement for its 2018 annual stockholders’ meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference from the Company’s definitive proxy statement for its 2018 annual stockholders’ meeting.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference from the Company’s definitive proxy statement for its 2018 annual stockholders’ meeting.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference from the Company’s definitive proxy statement for its 2018 annual stockholders’ meeting.

PART V

Item 15. Exhibits and Consolidated Financial Statement Schedules

(a)(1) Financial Statements.

See the Index to Financial Statements at page F-1 of this report.

(a)(2) Financial Statement Schedule.

Schedule IV — Mortgage Loans on Real Estate.

All other financial statement schedules have been omitted since they are either not required, are not applicable or the required information is shown in the consolidated financial statements or related notes.

(a)(3) Exhibits.

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).
4.1	Indenture, dated as of April 19, 2017, by and between the Registrant and Wilmington Savings Fund Society, FSB, as trustee.
4.2	First Supplemental Indenture, dated as of April 25, 2017, by and between the Registrant and Wilmington Savings Fund Society, FSB, as trustee; incorporated by reference to Exhibit 4.1 to the Company's report on Form 8-K filed on April 19, 2017.
4.3	Form of 7.25% Convertible Senior Note; incorporated by reference to Exhibit 4.2 to the Company's report on Form 8-K filed on April 25, 2017.
10.1	Agreement of Limited Partnership of Great Ajax Operating Partnership LP (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).
10.2	Amended and Restated Management Agreement dated October 27, 2015; incorporated by reference to Exhibit 10.1 to the Company’s report on Form 8-K filed on November 2, 2015.
10.3	Servicing Agreement dated as of July 8, 2014 by and among the Servicer and the registrant and its affiliates Great Ajax Operating Partnership L.P. and Little Ajax II LLC (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).
10.4	Form of Indemnification Agreement between registrant and each of its directors and officer (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).
10.5	Assignment Agreement made as of July 8, 2014, by and between the entities identified on Exhibit A thereto and the registrant with respect to Little Ajax II LLC (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).
10.6	2014 Director Equity Plan (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).
10.7	2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Commission on June 7, 2016. (File No.:333-00787)).
10.8	Form of Restricted Stock Award (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).
10.9	Registration Rights Agreement made and entered into as of July 8, 2014, by and among the registrant and FBR Capital Markets & Co., as the initial purchaser/placement agent (“FBR”) for the benefit of FBR and certain purchasers of the registrant’s common stock (incorporated by reference to Exhibit 10.8 to the

	Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).
10.10	Trademark License Agreement dated as of July 8, 2014 between the registrant and Aspen Yo (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-11 confidentially submitted to the SEC on September 23, 2014 (File No.:333-00787)).

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Exhibit Number	Exhibit Description
10.11	Registration Rights Agreement made and entered into as of December 16 2014, by and among the registrant and certain purchasers of the registrant's common stock (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-11 confidentially submitted to the SEC on December 29, 2014 (File No.:333-00787)).
21.1*	List of subsidiaries.
23.1*	Consent of Moss Adams LLP.
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Definition Linkbase Document
101.LAB**	XBRL Taxonomy Definition Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.
**Furnished herewith.
(b) Exhibits.
See Item 15(a)(3) above.
(c) Financial Statement Schedule
Schedule IV — Mortgage Loans on Real Estate.
All other financial statement schedules have been omitted since they are either not required, are not applicable or the required information is shown in the consolidated financial statements or related notes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, as of March 8, 2018.

GREAT AJAX CORP.

By: /s/ Lawrence Mendelsohn
Lawrence Mendelsohn

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Lawrence Mendelsohn Lawrence Mendelsohn	Chairman and Chief Executive Officer (Principal Executive Officer)	March 8, 2018
/s/ Mary Doyle Mary Doyle	Chief Financial Officer (Principal Financial and Accounting Officer)	March 8, 2018
/s/ Steven L. Begleiter Steven L. Begleiter	Director	March 8, 2018
/s/ John Condas John Condas	Director	March 8, 2018
/s/ Paul Friedman Paul Friedman	Director	March 8, 2018
/s/ Jonathan Bradford Handley, Jr. Jonathan Bradford Handley, Jr.	Director	March 8, 2018
/s/ J. Kirk Ogren, Jr. J. Kirk Ogren, Jr.	Director	March 8, 2018
/s/ Russell Schaub Russell Schaub	President and Director	March 8, 2018

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The accompanying notes are an integral part of the consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Great Ajax Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Great Ajax Corp. and Subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

Portland, Oregon
March 8, 2018

We have served as the Company's auditor since 2014.

The accompanying notes are an integral part of the consolidated financial statements.

GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

($ in thousands except shares and per share data)	December 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$53,721	$35,723
Cash held in trust	301	1,185
Mortgage loans, net[1,4]	1,253,541	869,091
Property held-for-sale, net[2]	24,947	23,882
Rental property, net	1,284	1,289
Investment in debt securities	6,285	6,323
Receivable from servicer	17,005	12,481
Investment in affiliates	7,020	4,253
Loans purchase deposit	26,740	50
Prepaid expenses and other assets	4,894	3,125
Total assets	$1,395,738	$957,402
LIABILITIES AND EQUITY		
Liabilities:		
Secured borrowings, net[1,3,4]	$694,040	$442,670
Borrowings under repurchase transactions	276,385	227,440
Convertible senior notes, net[3]	102,571	—
Management fee payable	750	750
Accrued expenses and other liabilities	4,554	3,819
Total liabilities	1,078,300	674,679
Commitments and contingencies – see Note 7		
Equity:		
Preferred stock $0.01 par value; 25,000,000 shares authorized, none issued or outstanding	—	—
Common stock $.01 par value; 125,000,000 shares authorized, 18,588,228 shares at December 31, 2017 and 18,122,387 shares at December 31, 2016 issued and outstanding	186	181
Additional paid-in capital	254,847	244,880
Retained earnings	35,556	27,231
Accumulated other comprehensive loss	(233)	—
Equity attributable to stockholders	290,356	272,292
Non-controlling interests[4]	27,082	10,431
Total equity	317,438	282,723
Total liabilities and equity	$1,395,738	$957,402

(1) Mortgage loans, net include $996,203 and $598,643 of loans at December 31, 2017 and December 31, 2016, respectively, transferred to securitization trusts that are variable interest entities ("VIEs"); these loans can only be used to settle obligations of the VIEs. Secured borrowings consist of notes issued by VIEs that can only be settled with the assets and cash flows of the VIEs. The creditors do not have recourse to the primary beneficiary (Great Ajax Corp.). See Note 8 — Debt.

(2) Property held-for-sale, net, includes valuation allowances of $1,784 and $1,620 at December 31, 2017, and December 31, 2016, respectively.

(3) Secured borrowings and Convertible senior notes are presented net of deferred issuance costs.

(4) At December 31, 2017, balances for Mortgage loans, net includes $177.1 million, Secured borrowings, net of deferred costs includes $88.4 million, and Non-controlling interests includes $14.0 million from a 50% owned joint venture, which we consolidate under GAAP.

The accompanying notes are an integral part of the consolidated financial statements.

GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

($ in thousands except shares and per share data)	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
INCOME			
Interest income	$ 91,424	$ 70,688	$ 47,700
Interest expense	(39,101)	(25,573)	(11,499)
Net interest income	52,323	45,115	36,201
Income from investment in Manager	423	218	198
Other income	2,049	1,364	1,169
Total income	54,795	46,697	37,568
EXPENSE			
Related party expense – loan servicing fees	8,245	6,083	3,959
Related party expense – management fee	5,340	3,949	3,353
Loan transaction expense	1,471	1,135	1,631
Professional fees	2,340	1,484	1,430
Real estate operating expenses	2,630	2,553	415
Other expense	3,353	2,019	986
Total expense	23,379	17,223	11,774
Loss on debt extinguishment	1,131	565	—
Income before provision for income taxes	30,285	28,909	25,794
Provision for income taxes	131	35	2
Consolidated net income	30,154	28,874	25,792
Less: consolidated net income attributable to the non-controlling interest	1,227	1,038	1,038
Consolidated net income attributable to common stockholders	$ 28,927	$ 27,836	$ 24,754
Basic earnings per common share	$ 1.58	$ 1.65	$ 1.68
Diluted earnings per common share	$ 1.51	$ 1.65	$ 1.68
Weighted average shares – basic	18,074,143	16,742,882	14,711,610
Weighted average shares – diluted	23,318,521	17,451,907	15,372,488

The accompanying notes are an integral part of the consolidated financial statements.

GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
($ in thousands)	2017	2016	2015
Consolidated net income attributable to common stockholders	$28,927	$27,836	$24,754
Other comprehensive income (loss):			
Net unrealized (loss) on investment, net of non-controlling interest	(233)	—	—
Comprehensive income	$28,694	$27,836	$24,754

The accompanying notes are an integral part of the consolidated financial statements.

GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income	$ 30,154	$ 28,874	$ 25,792
Adjustments to reconcile net income to net cash from operating activities			
Stock-based management fee and compensation expense	3,247	1,468	1,410
Non-cash interest income accretion	(43,379)	(39,178)	(30,936)
Discount accretion on investment in debt securities	(195)	—	—
Gain on sale of property held-for-sale	(506)	(106)	(460)
Loss from payoffs of loans in transit	26	—	—
Depreciation of property	80	20	3
Impairment of real estate owned	2,516	2,011	99
Amortization of debt discount and prepaid financing costs	6,466	6,833	1,846
Undistributed income from investment in affiliates	(707)	(558)	(550)
Net change in operating assets and liabilities			
Prepaid expenses and other assets	(2,543)	336	(4,678)
Receivable from Servicer	(5,087)	(7,037)	(4,104)
Accrued expenses, management fee payable, and other liabilities	1,233	2,116	903
Net cash from operating activities	(8,695)	(5,221)	(10,675)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of mortgage loans and related balances	(459,194)	(434,332)	(347,104)
Principal paydowns on mortgage loans	107,274	58,388	26,400
Sale of other mortgage related assets	—	92	—
Proceeds from sale of mortgage loans	—	78,162	—
Loans purchase deposit	(26,690)	(50)	—
Purchase of securities	—	(6,323)	—
Purchase of property held-for-sale and related balances	—	—	(2,940)
Proceeds from sale of property held-for-sale	17,143	9,117	2,729
Other	—	(785)	(294)
Investment in equity method investee	(5,115)	(1,111)	—
Originated SBC loans	(9,083)	(2,472)	—
Distribution from affiliates	3,055	365	162
Loan to affiliate	—	(3,960)	—
Repayment of loan to affiliate	—	3,636	—
Net cash from investing activities	(372,610)	(299,273)	(321,047)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from repurchase transactions	590,669	348,602	245,549
Repayments on repurchase transactions	(542,221)	(225,695)	(156,265)
Proceeds from sale of secured borrowings	431,126	288,436	204,799
Repayments on secured borrowings	(178,115)	(109,263)	(18,898)
Proceeds from sale of convertible senior notes	105,325	—	—
Deferred financing costs	(7,225)	(6,080)	(5,059)
Sale of common stock, net of offering costs	3,864	31,662	51,408
Sale of common stock pursuant to dividend reinvestment plan	174	50	—
Distribution to non-controlling interest	(766)	(618)	(500)
Issuance of non-controlling interest in subsidiaries	16,190	—	—

Dividends paid on common stock	(20,602)	(16,526)	(11,577)
Net cash from financing activities	398,419	310,568	309,457
NET CHANGE IN CASH, CASH EQUIVALENTS, AND CASH HELD IN TRUST	17,114	6,074	(22,265)
CASH, CASH EQUIVALENTS AND CASH HELD IN TRUST, beginning of period	36,908	30,834	53,099
CASH, CASH EQUIVALENTS AND CASH HELD IN TRUST, end of period	$ 54,022	$ 36,908	$ 30,834
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 35,214	$ 18,687	$ 9,169
Cash paid for income taxes	—	—	—
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			

The accompanying notes are an integral part of the consolidated financial statements.

Transfer of loans to rental property or property held-for-sale	$20,294	$25,037	$7,922
Issuance of common stock for management fee and compensation expense	$3,247	$1,468	$1,410
Conversion of short-term loan to AS Ajax E to equity investment in AS Ajax E	$—	$324	$—
Property sold to borrowers under the installment method	$56	$—	$—
Convertible senior notes conversion premium recognized to equity	$2,687	$—	$—
Transfer of accrued interest to borrowings under repurchase agreement	$497	$—	$—
Unrealized loss on available for sale debt securities	$233	$—	$—

The accompanying notes are an integral part of the consolidated financial statements.

GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2015 through December 31, 2017

($ in thousands)	Common Stock shares	Common stock amount	Additional Paid-in Capital	Retained Earnings	Accumulated other comprehensive loss	Total Stockholders' Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2014	11,223,984	$ 112	$ 158,951	$ 2,744	$ —	$ 161,807	$ 9,473	$ 171,280
Net income	—	—	—	24,754	—	24,754	1,038	25,792
Sale of shares	3,981,714	40	51,368	—	—	51,408	—	51,408
Issuance of shares under dividend reinvestment	—	—	—	—	—	—	—	—
Stock-based management fee expense	87,801	—	1,239	—	—	1,239	—	1,239
Stock-based compensation expense	8,447	—	171	—	—	171	—	171
Dividends and distributions	—	—	—	(11,577)	—	(11,577)	(500)	(12,077)
Balance at December 31, 2015	15,301,946	$ 152	$ 211,729	$ 15,921	$ —	$ 227,802	$ 10,011	$ 237,813
Net income	—	—	—	27,836	—	27,836	1,038	28,874
Sale of shares	2,589,427	27	31,635	—	—	31,662	—	31,662
Issuance of shares under dividend reinvestment plan	3,835	—	50	—	—	50	—	50
Stock-based management fee expense	65,515	2	1,066	—	—	1,068	—	1,068
Stock-based compensation expense	161,664	—	400	—	—	400	—	400
Dividends and distributions	—	—	—	(16,526)	—	(16,526)	(618)	(17,144)
Balance at December 31, 2016	18,122,387	$ 181	$ 244,880	$ 27,231	$ —	$ 272,292	$ 10,431	$ 282,723
Net income	—	—	—	28,927	—	28,927	1,227	30,154
Sale of shares	286,841	3	4,049	—	—	4,052	—	4,052
Shelf registration fees	—	—	(188)	—	—	(188)	—	(188)
Issuance of non-controlling interest in subsidiaries	—	—	—	—	—	—	16,190	16,190
Issuance of shares under dividend reinvestment plan	12,710	—	174	—	—	174	—	174
Stock-based management fee expense	122,350	2	2,333	—	—	2,335	—	2,335
Stock-based compensation expense	43,940	—	912	—	—	912	—	912
Dividends and distributions	—	—	—	(20,602)	—	(20,602)	(766)	(21,368)

Conversion premium - Convertible senior notes	—	—	2,687	—	—	2,687	—	2,687
Other comprehensive loss	—	—	—	—	(233)	(233)	—	(233)
Balance at December 31, 2017	18,588,228	$ 186	$ 254,847	$ 35,556	$ (233)	$ 290,356	$ 27,082	$ 317,438

The accompanying notes are an integral part of the consolidated financial statements.

GREAT AJAX CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017
Note 1 — Organization and Basis of Presentation
Great Ajax Corp., a Maryland corporation (the “Company”), is an externally managed real estate company formed on January 30, 2014, and capitalized on March 28, 2014, by its then sole stockholder, Aspen Yo (“Aspen”), a company affiliated with Aspen Capital, the trade name for the Aspen group of companies. The Company was formed to facilitate capital raising activities and to operate as a mortgage real estate investment trust (“REIT”). The Company primarily targets acquisitions of re-performing loans (“RPLs”) including residential mortgage loans and small balance commercial mortgage loans (“SBC loans”) and originations of SBC loans. RPLs are mortgage loans on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. The SBC loans that the Company intends to opportunistically target, through acquisitions, or originations, generally have a principal balance of up to $5.0 million and are secured by multi-family residential and commercial mixed use retail/residential properties on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. Additionally, the Company may invest in single-family and smaller commercial properties directly either through a foreclosure event of a loan in our mortgage portfolio or, less frequently, through a direct acquisition. Historically, the Company has also targeted investments in non-performing loans (“NPL”). NPLs are loans on which the most recent three payments have not been made. The Company may acquire NPLs from time to time, either directly or with joint venture partners, and will continue to manage the NPLs on its balance sheet. The Company’s manager is Thetis Asset Management LLC (the “Manager” or “Thetis”), an affiliated company. The Company owns 19.8% of the Manager. The Company’s mortgage loans and real properties are serviced by the Servicer, also an affiliated company. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”).
The Company conducts substantially all of its business through its operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership (the “Operating Partnership”), and its subsidiaries. The Company, through a wholly owned subsidiary, is the sole general partner of the Operating Partnership. GA-TRS is a wholly owned subsidiary of the Operating Partnership that owns the equity interest in the Manager. The Company elected to treat GA-TRS as a taxable REIT subsidiary (“TRS”) under the Code. Great Ajax Funding LLC is a wholly owned subsidiary of the Operating Partnership formed to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts the Company may form for additional secured borrowings. The Company generally securitizes its mortgage loans through securitization trusts and retains subordinated securities from the secured borrowings. These trusts are considered to be VIE's, and the Company has determined that it is the primary beneficiary of the VIE's. AJX Mortgage Trust I and AJX Mortgage Trust II are wholly owned subsidiaries of the Operating Partnership formed to hold mortgage loans used as collateral for financings under the Company’s repurchase agreements. In addition, the Company, through its Operating Partnership, holds real estate owned properties (“REO”) acquired upon the foreclosure or other settlement of its owned NPLs, as well as through outright purchases. GAJX Real Estate LLC is a wholly owned subsidiary of the Operating Partnership formed to own, maintain, improve and sell REO properties purchased by the Company. The Company has elected to treat GAJX Real Estate LLC as a TRS under the Code.
Basis of Presentation and Use of Estimates
The consolidated financial statements have been prepared in accordance with U.S. GAAP, as contained within the Accounting Standards Codification (“ASC”) of the Financial Accounting Standards Board (“FASB”) and the rules and regulations of the SEC, as applied to financial statements.
The Company consolidates the results and balances of securitization trusts which are established to provide debt financing to the Company. The Company also consolidates the results and balances of two subsidiaries with ownership interests held by third parties. AS Ajax E II LLC ("AS Ajax E II") holds a 5.0% interest in a Delaware trust that was formed to own residential mortgage loans and residential real estate assets; it is 53.1% owned by the Company. Ajax Mortgage Loan Trust 2017-D ("2017-D") is a securitization trust which holds mortgage loans, REO

property and secured debt; it is 50% owned by the Company. The Company recognizes a non-controlling interest in its consolidated financial statements for the amount of the investment and income due to the third party investors in both AS Ajax E II and 2017-D. All controlled subsidiaries are included in the consolidated financial statements and all intercompany accounts and transactions have been eliminated in consolidation. The Operating Partnership is a majority owned partnership that has a non-controlling ownership interest that is included in non-controlling interests on the consolidated Balance Sheet. As of December 31, 2017, the Company owned 96.8% of the outstanding operating partnership units ("OP Units") and the remaining 3.2% of the OP Units are owned by an unaffiliated holder.

The Company’s 19.8% investment in the Manager is accounted for using the equity method because the Company exercises significant influence on the operations of the Manager through common officers and directors. There is no traded or quoted price for the interests in the Manager since it is privately held.
The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company considers significant estimates to include expected cash flows from mortgage loans and fair value measurements, and the net realizable value of REO properties held-for-sale.

Note 2 — Summary of Significant Accounting Policies
Mortgage loans
Purchased mortgage loans are initially recorded at the purchase price, net of any acquisition fees or costs at the time of acquisition and are considered asset acquisitions. As part of the determination of the bid price for mortgage loans, the Company uses a proprietary discounted cash flow valuation model to project expected cash flows, and consider alternate loan resolution probabilities, including liquidation or conversion to REO. Observable inputs to the model include interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines, the value of underlying properties and other economic and demographic data.
Loans acquired with deterioration in credit quality
The loans acquired by the Company have generally suffered some credit deterioration subsequent to origination. As a result, the Company is required to account for the mortgage loans pursuant to ASC 310-30, Accounting for Loans with Deterioration in Credit Quality. The Company’s recognition of interest income for loans within the scope of ASC 310-30 is based upon its having a reasonable expectation of the amount and timing of the cash flows expected to be collected. When the timing and amount of cash flows expected to be collected are reasonably estimable, the Company uses expected cash flows to apply the interest method of income recognition.
Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. RPLs have been determined to have common risk characteristics and are accounted for as a single loan pool for loans acquired within each three-month calendar quarter. Similarly, NPLs have been determined to have common risk characteristics and are accounted for as a single non-performing pool for loans acquired within each three-month calendar quarter. Excluded from the aggregate pools are loans that pay in full subsequent to the acquisition closing date but prior to pooling. Any gain or loss on these loans is recognized as Interest income in the period the loan pays in full.
The Company’s accounting for loans under ASC 310-30 gives rise to an accretable yield and a non-accretable amount. The excess of all undiscounted cash flows expected to be collected at acquisition over the initial investment in the loans is the accretable yield. Cash flows expected at acquisition include all cash flows directly related to the acquired loan, including those expected from the underlying collateral. The Company recognizes the accretable yield as Interest income on a prospective level yield basis over the life of the pool. The excess of a loan’s contractually required payments over the amount of cash flows expected at the acquisition is the non-accretable amount. The Company’s expectation of the amount of undiscounted cash flows expected to be collected is evaluated at the end of each calendar quarter. If the Company expects to collect greater cash flows over the life of the pool, the accretable yield amount increases and the expected yield to maturity is adjusted on a prospective basis. A provision for loan losses is established when it is probable the Company will not collect all amounts previously estimated to be collectible. Management assesses the credit quality of the portfolio and the adequacy of loan loss reserves on a quarterly basis, or more frequently as necessary. Significant judgment is required in this analysis. Depending on the expected recovery of its investment, the Company considers the estimated net recoverable value of the loan pools as well as other factors, such as the fair value of the underlying collateral. When a loan pool is determined to be impaired, the amount of loss accrual is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan pool’s effective interest rate or the fair value of the underlying collateral. Because these determinations are based upon projections of future economic events, which are inherently subjective, the amounts

ultimately realized may differ materially from the carrying value as of the reporting date.

Borrower payments on the Company’s mortgage loans are classified as principal, interest, payments of fees, or escrow deposits. Amounts applied as interest on the borrower account are similarly classified as interest for accounting purposes and are classified as operating cash flows in the Company’s consolidated Statement of Cash Flows. Amounts applied as principal on the borrower account are similarly classified as principal for accounting purposes and are classified as investing cash flows in the consolidated Statement of Cash Flows. Amounts received as payments of fees are recorded in Other income and classified

as operating cash flows in the consolidated Statement of Cash Flows. Escrow deposits are recorded on the Servicer's Balance Sheet and do not impact the Company's cash flow.

Loans acquired or originated that have not experienced a deterioration in credit quality

While the Company generally acquires loans that have experienced deterioration in credit quality, it does acquire or originate loans that have not experienced a deterioration in credit quality. The Company recognizes any related loan discount and deferred expenses pursuant to ASC 310-20 by amortizing these amounts over the life of the loan.

Accrual of interest on individual loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Company's policy is to stop accruing interest when a loan's delinquency exceeds 90 days. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged-off are reversed against Interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic principal and interest payments returns and future payments are reasonably assured, in which case the loan is returned to accrual status.

An individual loan is considered to be impaired when, based on current events and conditions, it is probable the Company will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent.

For individual loans, a troubled debt restructuring is a formal restructuring of a loan where, for economic or legal reasons related to the borrower's financial difficulties, a concession that would not otherwise be considered is granted to the borrower. The concession may be granted in various forms, including providing a below-market interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a combination of these. An individual loan that has had a troubled debt restructuring is considered to be impaired and is subject to the relevant accounting for impaired loans. Loans are tested quarterly for impairment and impairment reserves are recorded to the extent the net realizable value of the underlying collateral falls below net book value.

If necessary, an allowance for loan losses is established through a provision for loan losses charged to expenses. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans.

Real Estate

The Company acquires REO properties directly through purchases, or when it forecloses on the borrower and takes title to the underlying property or the borrower surrenders the deed in lieu of foreclosure. Property is recorded at cost if purchased, or at the present value of future cash flows if obtained through foreclosure by the Company. Property that the Company expects to actively market for sale is classified as held-for-sale. Property held-for-sale is carried at the lower of its acquisition basis or net realizable value (fair market value less expected selling costs, and any additional costs necessary to prepare the property for sale). Fair market value is determined based on broker price opinions ("BPOs"), appraisals, or other market indicators of fair value including list price or contract price. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income through real estate operating expenses. No depreciation or amortization expense is recognized on properties held-for-sale, and all holding costs are expensed as incurred.

Rental property is property not held-for-sale. Rental properties are intended to be held as long-term investments but may eventually be reclassified as held-for-sale. Property is generally held for investment as rental property if the cash flows from use as a rental exceed the present value of expected cash flows from a sale. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets of three to 27.5 years. The Company performs an impairment analysis for all rental property using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. The cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

Renovations are performed by the Servicer, and those costs are then reimbursed to the Servicer. Any renovations on properties which the Company elects to hold as rental properties are capitalized as part of the property's basis and depreciated over the remaining estimated useful life of the property. The Company may perform property renovations to maximize the value of a property for either its rental strategy or for resale.

Secured Borrowings

The Company, through securitization trusts, issues callable debt secured by its mortgage loans in the ordinary course of business. The secured borrowings are structured as debt financings, and the loans remain on the Company's consolidated Balance Sheet as the Company is the primary beneficiary of the securitization trusts which are VIEs. These secured borrowing VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. The Company's exposure to the obligations of the VIEs is generally limited to its investments in the entities; the creditors do not have recourse to the primary beneficiary. Coupon interest on the debt is recognized using the accrual method of accounting. Deferred issuance costs, including original issue discount and debt issuance costs, are carried on the Company's consolidated Balance Sheets as a deduction from Secured borrowings, and are amortized on an effective yield basis based on the underlying cash flow of the mortgage loans. The Company assumes the debt will be called at the specified call date for purposes of amortizing discount and issuance costs because the Company believes it will have the intent and ability to call the debt on the call date. Changes in the actual or projected underlying cash flows are reflected in the timing and amount of deferred issuance cost amortization.

Repurchase Facilities

The Company enters into repurchase financing facilities under which it nominally sells assets to a counterparty and simultaneously enters into an agreement to repurchase the sold assets at a price equal to the sold amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, repurchase transactions are generally accounted for as debt secured by the underlying assets. At the maturity of a repurchase financing, unless the repurchase financing is renewed, the Company is required to repay the borrowing including any accrued interest and concurrently receives back its pledged collateral from the lender. The repurchase financings are treated as collateralized financing transactions; pledged assets are recorded as assets in the Company's consolidated Balance Sheets, and debt is recognized at the contractual amount. Interest is recorded at the contractual amount on an accrual basis. Costs associated with the set-up of a repurchasing contract are recorded as deferred issuance cost at inception and amortized over the contractual life of the agreement. Any draw fees associated with individual transactions and any facility fees assessed on the amounts outstanding are recorded as deferred costs when incurred and amortized over the contractual life of the related borrowing.

Convertible Senior Notes

On April 25, 2017, the Company completed the public offer and sale of $87.5 million in aggregate principal amount of its Convertible senior notes (the "notes") due 2024, with a follow-on offering of an additional $20.5 million in aggregate principal amount completed on August 18, 2017, which, combined with the notes from the April offering, form a single series of securities. The notes bear interest at a rate of 7.25% per annum, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year. The notes will mature on April 30, 2024, unless earlier converted or redeemed. During certain periods and subject to certain conditions the notes will be convertible by their holders into shares of the Company's common stock at a conversion rate of 1.6313 shares of common stock per $25.00 principal amount of the notes, which represents a conversion price of approximately $15.33 per share of common stock.

Coupon interest on the notes is recognized using the accrual method of accounting. Discount and deferred issuance costs are carried on the Company's consolidated Balance Sheets as a deduction from the notes, and are amortized to interest expense on an effective yield basis through April 30, 2023, the date at which the notes can be converted. The Company assumes the debt will be converted at the specified conversion date for purposes of amortizing issuance costs because the Company believes such conversion will be in the economic interest of the holders. Discount of $2.7 million, representing the fair value of the embedded conversion feature, was recorded to stockholders' equity. No sinking fund has been established for redemption of the principal.

Management Fee and Expense Reimbursement

The Company is a party to the Management Agreement with the Manager, which has a 15-year term, expiring on July 8, 2029. Under the Management Agreement, the Manager implements the Company's business strategy and manages the Company's business and investment activities and day-to-day operations, subject to oversight by the Company's Board of Directors. Among other services, the Manager, directly or through Aspen affiliates, provides the Company with a management team and necessary administrative and support personnel. Additionally, the Company pays directly for the internal audit function which reports directly to the Audit Committee and the Board of Directors.

The Company does not currently have any employees that it pays directly and does not expect to have any employees that it pays directly in the foreseeable future. Each of the Company’s executive officers is an employee or officer, or both, of the Manager or the Servicer.

Under the Management Agreement by and between the Company and the Manager as amended and restated on October 27, 2015, the Company pays a quarterly base management fee based on its stockholders’ equity, including equity equivalents such as the Company's recent issuance of Convertible senior notes, and a quarterly incentive management fee based on its cash distributions to its stockholders. Manager fees are expensed in the quarter incurred and the portion payable in common stock is included in stockholders’ equity at quarter end. See Note 9 — Related party transactions.

Servicing Fees
On July 8, 2014, the Company entered into a 15-year Servicing Agreement (the "Servicing Agreement") with the Servicer. Under the Servicing Agreement by and between the Company and the Servicer, the Servicer receives an annual servicing fee rate of 0.65% annually of the Unpaid Principal Balance ("UPB") for loans that are re-performing at acquisition and 1.25% of UPB for loans that are non-performing at acquisition. Servicing fees are paid monthly. The total fees incurred by the Company for these services depend upon the UPB and type of mortgage loans that the Servicer services pursuant to the terms of the servicing agreement. The fees do not change if a re-performing loan becomes non-performing or vice versa. Servicing fees for the Company's real property assets are the greater of (i) the servicing fee applicable to the underlying mortgage loan prior to foreclosure, or (ii) 1.00% annually of the fair market value of the REO as reasonably determined by the Manager or 1.00% annually of the purchase price of any REO otherwise purchased by the Company. The Servicer is reimbursed for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations undertaken on the Company's behalf. The total fees incurred by the Company for these services will be dependent upon the UPB and type of mortgage loans that the Servicer services, property values, previous UPB of the relevant loan, and the number of REO properties. The Servicing Agreement will automatically renew for successive one-year terms, subject to prior written notice of non-renewal. In certain cases, the Company may be obligated to pay a termination fee. The Management Agreement will automatically terminate at the same time as the Servicing Agreement if the Servicing Agreement is terminated for any reason. See Note 9 — Related party transactions.
Stock-based Payments
A portion of the management fee is payable in cash, and a portion of the management fee is in shares of the Company's common stock, which are issued to the Manager in a private placement and are restricted securities under the Securities Act of 1933, as amended (the "Securities Act"). Shares issued to the Manager are determined based on the higher of the most recently reported book value or the average of the closing prices of our common stock on the New York Stock Exchange ("NYSE") on the five business days after the date on which the most recent regular quarterly dividend to holders of our common stock is paid. Management fees paid in common stock are recognized as an expense in the quarter incurred and recorded in equity at quarter end.
Under the Company's 2014 Director Equity Plan (the "Director Plan"), the Company may make stock-based awards to its directors. The Director Plan is designed to promote the Company's interests by attracting and retaining qualified and experienced individuals for service as non-employee directors. The Director Plan is administered by the Company's Board of Directors. The total number of shares of common stock or other stock-based award, including grants of long-term incentive plan units ("LTIP Units") from the Operating Partnership, available for issuance under the Director Plan is 90,000 shares. The Company has issued to each of its independent directors restricted stock awards of 2,000 shares of its common stock upon joining the Board of Directors, which are subject to a one-year vesting period. In addition, each of the Company's independent directors receives an annual fee of $75,000, an increase of $25,000 over the annual fee paid to the Company's independent directors through December 31, 2016. The fee is payable quarterly, half in shares of the Company's common stock and half in cash. Stock-based expense for the directors' annual fee is expensed as earned, in equal quarterly amounts during the year, and recorded in equity at quarter end.
On June 7, 2016, the Company's stockholders approved the 2016 Equity Incentive Plan (the "2016 Plan") to attract and retain non-employee directors, executive officers, key employees and service providers, including officers and employees of the Company's affiliates. The 2016 Plan authorized the issuance of up to 5% of the Company's outstanding shares from time to time on a fully diluted basis (assuming, if applicable, the exercise of all outstanding options and the conversion of all warrants and Convertible senior notes, including OP Units and LTIP Units, into shares of common stock). Grants of restricted stock to officers of the Company use grant date fair value of the stock as the basis for measuring the cost of the grant. The cost of grants of restricted stock to employees of the Company's affiliates is determined using the stock price as of the date at which the counterparty's performance is complete. Forfeitures are accounted for in the period in which they occur. The shares vest over three years, with one third of the shares vesting on each of the first, second and third anniversaries of the grant date. The shares may not be sold until the third anniversary of the grant date.
Directors' Fees

The expense related to directors' fees is accrued, and the portion payable in common stock is reflected in consolidated Stockholders' equity in the period in which it is incurred.

Variable Interest Entities

In the normal course of business, the Company enters into various types of transactions with special purpose entities, which have primarily consisted of trusts established for the Company's secured borrowings (See "Secured Borrowings" above and Note 8 to the consolidated Financial Statements). Additionally, from time to time, the Company may enter into joint

ventures with unrelated entities. The Company evaluates each transaction and its resulting beneficial interest to determine if the entity formed pursuant to the transaction should be classified as a VIE. If an entity created in a transaction meets the definition of a VIE and the Company determines that it or a consolidated subsidiary is the primary beneficiary, the Company will include the entity in its consolidated financial statements.

Cash and Cash Equivalents

Highly liquid investments with an original maturity of three months or less when purchased are considered cash equivalents. The Company generally maintains cash and cash equivalents at insured banking institutions with minimum assets of $1 billion. Certain account balances exceed Federal Deposit Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

Cash Held in Trust

Cash held in trust consists of restricted cash balances legally due to lenders, and is segregated from the Company's other cash deposits. Cash held in trust is not available to the Company for any purposes other than the settlement of existing obligations to the lender.

Earnings per Share

The Company grants restricted shares which entitle the recipients to receive dividend equivalents during the vesting period on a basis equivalent to the dividends paid to holders of common shares. Unvested share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, "dividends") are classified as "participating securities" and are included in the basic earnings per share calculation using the two-class method.

Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities, based on their respective rights to receive dividends. Basic earnings per share is determined by dividing net income available to common shareholders, reduced by income attributable to the participating securities, by the weighted-average common shares outstanding during the period.

Diluted earnings per share is determined by dividing net income attributable to diluted shareholders, which adds back to net income the interest expense, net of applicable income taxes, on the Company's Convertible senior notes, by the weighted-average common shares outstanding, assuming all dilutive securities, including stock grants, shares that would be issued in the event that OP Units are redeemed for shares of common stock of the Company, shares issued in respect of the stock-based portion of the base fee payable to the Manager and independent directors, and shares that would be issued in the event of conversion of the Company's outstanding Convertible senior notes, were issued. In the event the Company were to record a loss, potentially dilutive securities would be excluded from the diluted loss per share calculation, as their effect on loss per share would be anti-dilutive.

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. A fair value hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

The fair value of mortgage loans is estimated using the Manager's proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The

Company reviews its discount rates periodically to ensure the assumptions used to calculate fair value are in line with market conditions.
The Company's Investment in debt securities is considered to be available for sale, and is carried at fair value with changes in fair value reflected in the Company's consolidated Statements of Comprehensive Income.
The Company calculates the fair value for the secured borrowings on its consolidated Balance Sheets from securitization trusts by using the Company's proprietary pricing model to estimate the cash flows expected to be generated from the underlying collateral with the discount rate used in the present value calculation representing an estimate of the average rate for debt instruments with similar durations and risk factors.
The Company's borrowings under repurchase agreement are short-term in nature, and the Company's management believes it can renew the current borrowing arrangements on similar terms in the future. Accordingly, the carrying value of these borrowings approximates fair value.
The Company's Convertible senior notes are traded on the NYSE; the debt's fair value is determined from the closing price on the Balance Sheet date.
Property held-for-sale is carried at the lower of its acquisition basis or net realizable value. Fair market value is determined based on broker price opinions, appraisals, or other market indicators of fair value. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income.
Income Taxes
The Company elected REIT status upon the filing of its 2014 income tax return, and has conducted its operations in order to satisfy and maintain eligibility for REIT status. Accordingly, the Company does not believe it will be subject to U.S. federal income tax from the year ended December 31, 2014 forward on the portion of the Company's REIT taxable income that is distributed to the Company's stockholders as long as certain asset, income and stock ownership tests are met. If the Company fails to qualify as a REIT in any taxable year, it generally will not be permitted to qualify for treatment as a REIT for U.S. federal income tax purposes for the four taxable years following the year during which qualification is lost. In addition, notwithstanding the Company's qualification as a REIT, it may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for U.S. federal income tax purposes.
GA-TRS, GAJX Real Estate LLC, and any other TRS that the Company forms will be subject to U.S. federal and state income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences or benefits attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to the Company's judgment, it reduces a deferred tax asset by a valuation allowance if it is "more-likely-than-not" that some or all of the deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and the Company recognizes tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.
The Company evaluates tax positions taken in its consolidated financial statements under the interpretation for accounting for uncertainty in income taxes. As a result of this evaluation, the Company may recognize a tax benefit from an uncertain tax position only if it is "more-likely-than-not" that the tax position will be sustained on examination by taxing authorities.
The Company's tax returns remain subject to examination and consequently, the taxability of the distributions and other tax positions taken by the Company may be subject to change. Distributions to stockholders generally will be taxable as ordinary income, although a portion of such distributions may be designated as long-term capital gain or qualified dividend income, or may constitute a return of capital. The Company furnishes annually to each stockholder a statement setting forth distributions paid during the preceding year and their U.S. federal income tax treatment.
Investment in Debt Securities
The Company's investment in debt securities consists of a $6.3 million investment in subordinated debt securities issued by a related party trust. The notes have a stated final maturity of October 25, 2056. During the year ended December 31, 2017, the Company made a decision to transfer these notes to available-for-sale status in anticipation of

reinvesting the proceeds from any sale into additional mortgage loans. Accordingly, the carrying amount of $6.3 million was transferred from held-to-maturity to available-for-sale status during the year. The notes are carried at fair value with changes in fair value reflected in the Company's consolidated Statements of Comprehensive Income.

Segment Information

The Company’s primary business is acquiring, investing in and managing a portfolio of mortgage loans. The Company operates in a single segment focused on re-performing mortgages, and to a lesser extent non-performing mortgages.

Emerging Growth Company

Section 107 of the Jumpstart Our Business Startups Act (the “JOBS Act”) permits an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. Nonetheless, the Company has elected not to use this extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended.

Reclassifications

Certain amounts in the Company’s 2016 consolidated Financial Statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income or equity.

Recently Adopted Accounting Standards

In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures, which is intended to simplify the transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company adopted ASU 2016-07 in 2017 with no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation - Interests Held through Related Parties That Are Under Common Control. ASU 2016-17 is intended to revise guidance from ASU 2015-02 which, in practice, was leading to reporting of financial information that was not useful to financial statement users. Accordingly, ASU 2016-17 provides guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining if the reporting entity is the primary beneficiary of the VIE. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2016-17 in 2017 with no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

In March 2017, the FASB issued ASU 2017-08, Receivables- Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities. This standard shortens the amortization period for the premium to the earliest call date to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. Adoption of ASU 2017-08 is required for fiscal years and interim periods within those fiscal years, beginning after December, 15, 2018, early adoption is permitted. The Company adopted ASU 2017-08 in 2017 with no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective or a modified retrospective approach. In August 2015, the FASB issued ASU 2015-14 deferring the effective date for ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company recognizes revenue on its investments in mortgage loans pursuant to ASC Topic 310 which addresses the accounting treatment for various receivables. ASU 2014-09 provides a specific exemption for revenue recognized pursuant to ASC Topic 310. Accordingly, the implementation of ASU 2014-09 will not have a material effect on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically the guidance (1) requires equity investments to be measured at fair value with changes in fair value recognized in earnings, (2)

simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (4) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option, (6) requires separate presentation of financial assets and liabilities by measurement category and form on the consolidated balance

sheets or the notes to the financial statements, and (7) clarifies that the need for a valuation allowance on a deferred tax asset related to an available-for-sale security should be evaluated with other deferred tax assets. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect that the implementation of ASU 2016-01 will have a material effect on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The main objective of this guidance is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. To achieve this, the amendments in this guidance replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Specifically, the amendments in this guidance require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted, beginning with fiscal years after December 15, 2018. The Company is currently evaluating the impact on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the effect that ASU 2016-15 will have on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company does not expect that the implementation of ASU 2017-09 will have a material effect on its consolidated financial statements and related disclosures.

Note 3 — Mortgage Loans

The following table presents information regarding the carrying value for the Mortgage loan categories of RPL, NPL and originated as of December 31, 2017 and 2016 ($ in thousands):

	As of December 31,	
Loan portfolio basis by asset type	2017	2016[1]
Residential RPLs	$1,190,019	$803,667
Purchased SBC (RPL)	8,605	7,731
Originated SBC	11,620	2,473
Residential NPLs	43,297	55,220
Total	$1,253,541	$869,091

(1) These values have been presented net of borrower advances reclassified to Prepaid expenses and other assets.

Included on the Company’s consolidated Balance Sheets as of December 31, 2017 and 2016 are approximately $1,253.5 million and $869.1 million, respectively, of RPLs, NPLs, and originated SBCs at carrying value. RPLs and NPLs are categorized at acquisition. The carrying value of RPLs and NPLs reflects the original investment amount, plus accretion of interest income, less principal and interest cash flows received. Additionally, originated SBC loans are carried at originated cost, less any loan discount. The carrying value for all loans is decreased by an allowance for loan losses, if any. For the years ended December 31, 2017, 2016 and 2015, the Company recognized no provision for

loan loss. For the years ended December 31, 2017, 2016 and 2015, the Company accreted $89.9 million, $70.6 million and $47.7 million, respectively, into interest income with respect to its RPL and NPL portfolio.

The Company's mortgage loans are secured by real estate. The Company monitors the credit quality of the mortgage loans in its portfolio on an ongoing basis, principally by considering loan payment activity or delinquency status. In addition,

the Company assesses the expected cash flows from the mortgage loans, the fair value of the underlying collateral and other factors, and evaluates whether and when it becomes probable that all amounts contractually due will not be collected.

The Company's loan acquisitions for the year ended December 31, 2017 consisted of 2,562 purchased RPLs with $526.5 million UPB and eight, originated SBC loans with $8.8 million UPB. Comparatively during the year ended December 31, 2016, the Company acquired 2,613 RPLs with $522.6 million UPB and one originated SBC loan with $2.5 million UPB.

The Company acquired no NPLs for year ended December 31, 2017 and acquired 23 NPLs with $3.6 million UPB for the year ended 2016.

The following table presents information regarding the accretable yield and non-accretable amount for purchased loans acquired during the following periods ($ in thousands):

	For the year ended December 31,			
	2017		2016	
	Re-performing loans	Non-performing loans	Re-performing loans[1]	Non-performing loans
Contractually required principal and interest	$947,162	$ —	$748,008	$ 6,387
Non-accretable amount	(373,251)	—	(284,901)	(4,143)
Expected cash flows to be collected	573,911	—	463,107	2,244
Accretable yield	(114,676)	—	(106,492)	(222)
Fair value at acquisition	$459,235	$ —	$356,615	$ 2,022

(1) Excludes $78.2 million of RPLs acquired and sold in the third quarter of 2016.

The Company determines the accretable yield on new acquisitions by comparing the expected cash flows from the Company's proprietary cash flow model to the remaining contractual cash flows at acquisition. The difference between the expected cash flows and the portfolio acquisition price is accretable yield. The difference between the remaining contractual cash flows and the expected cash flows is the non-accretable amount. The following table presents the accretable yield and non-accretable amount for loan portfolio purchases in 2017 and 2016. Accretable yield and accretion amounts do not include any of the eight and one originated SBC loans at December 31, 2017 and 2016, respectively ($ in thousands):

	For the year ended December 31,			
	2017		2016	
	Re-performing loans	Non-performing loans	Re-performing loans	Non-performing loans
Balance at beginning of period	$239,858	$ 12,065	$136,455	$ 18,425
Accretable yield additions	114,676	—	106,492	222
Accretion	(85,715)	(4,166)	(62,976)	(7,583)
Reclassification from (to) non-accretable amount, net	75,322	(529)	59,887	1,001
Balance at end of period	$344,141	$ 7,370	$239,858	$ 12,065

During the year ended December 31, 2017, the Company reclassified a net $74.8 million from non-accretable amount to accretable yield, consisting of a $75.3 million transfer from non-accretable amount to accretable yield for RPLs, and a $0.5 million transfer from accretable yield to non-accretable amount for NPLs. Comparatively, during the year ended 2016, the Company reclassified a net $60.9 from non-accretable amount to accretable yield, consisting of a $59.9 million transfer from non-accretable amount to accretable yield for its RPLs and $1.0 million from accretable yield to non-accretable amount on NPLs. The Company recalculates the amount of accretable yield and non-accretable amount on a quarterly basis. Reclassifications between the two categories are primarily based upon changes in expected cash flows and actual prepayments, including payoffs in full or in part. Additionally, the accretable yield and non-accretable amounts are revised when loans are reclassified to REO because the future expected cash flows are removed from the pool. The 2017 and 2016 reclassifications from non-accretable amount to accretable yield were

driven by actual loan payment performance exceeding expectations at acquisition. Accordingly, default expectations for these portfolios were decreased resulting in higher forecasted interest income over the weighted average life of the loans.

The following table sets forth the carrying value of the Company’s mortgage loans, and related unpaid principal balance by delinquency status as of December 31, 2017 and 2016 ($ in thousands):

	As of December 31,					
	2017			2016		
	Number of loans	Carrying value	Unpaid principal balance	Number of loans	Carrying value	Unpaid principal balance
Current	3,998	$744,300	$860,572	2,306	$419,500	$510,058
30	912	152,685	178,383	797	141,169	173,482
60	577	100,792	117,145	482	84,468	101,727
90	1,047	177,841	214,297	911	142,701	179,718
Foreclosure	367	77,923	94,826	414	81,253	105,208
Mortgage loans	6,901	$1,253,541	$1,465,223	4,910	$869,091	$1,070,193

Note 4 — Real Estate Assets, Net

The Company primarily acquires REO when a mortgage loan is foreclosed upon and the Company takes title to the property on the foreclosure date or the borrower surrenders the deed in lieu of foreclosure. Additionally, from time to time, the Company may acquire real estate assets in purchase transactions.

Rental Property

As of December 31, 2017, the Company owned 14 REO properties with an aggregate carrying value of $1.3 million held for investment as rentals, at which time five properties were rented. One property was acquired as an RPL but transitioned to foreclosure prior to boarding by the Servicer, three were acquired through foreclosures, and 10 were transferred from Property held-for-sale. As of December 31, 2016, the Company had three REO property with a carrying value of $1.3 million held for use as a rental, at which time two were rented. Two of these properties were acquired an RPL but transitioned to foreclosure prior to boarding by the Servicer, and one was acquired through foreclosure.

Property Held-for-Sale

The Company classifies REO as held-for-sale if the REO is expected to be actively marketed for sale. As of December 31, 2017 and 2016, the Company’s net investments in REO held-for-sale were $24.9 million and $23.9 million, respectively, which include balances of $1.8 million and $2.1 million, respectively for properties undergoing renovation or which are otherwise in the process of being brought to market. For the years ended December 31, 2017 and 2016, all of the additions to REO Property held-for-sale were acquired through foreclosure or deed in lieu of foreclosure, and reclassified out of its mortgage loan portfolio.

The following table presents the activity in the Company’s carrying value of property held-for-sale for the years ended December 31, 2017 and 2016 ($ in thousands):

	For the year ended December 31,			
	2017		2016	
Property Held-for-sale	Count	Amount	Count	Amount
Balance at beginning of year	149	$23,882	73	$10,333
Transfers from mortgage loans	125	19,477	158	24,095
Adjustments to record at lower of cost or fair value	—	(2,516)	—	(2,011)
Disposals	(128)	(16,638)	(82)	(8,991)
Net transfers to Rental property	(7)	746	—	—
Other	(3)	(4)	—	456
Balance at end of year	136	$24,947	149	$23,882

Dispositions

During the years ended December 31, 2017, 2016 and 2015 the Company sold 128, 82 and 23 REO properties, realizing a net gain of approximately $0.5 million, $0.1 million and $0.3 million, respectively. These amounts are included in Other income on the Company's consolidated Statements of Income. The Company recorded a lower of

cost or net realizable

value adjustments in Real estate operating expense for the years ended December 31, 2017, 2016 and 2015 of $2.5 million, $2.0 million and $0.1 million, respectively.

Note 5 — Fair Value

The following tables set forth the fair value of financial assets and liabilities by level within the fair value hierarchy as of December 31, 2017 and 2016 ($ in thousands):

December 31, 2017	Carrying Value	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
Financial assets				
Mortgage loans	$1,253,541	$—	$—	$1,375,722
Investment in debt securities	$6,285	$—	$6,285	$—
Investment in Manager[(1)]	$—	$—	$—	$6,427
Investment in AS Ajax E	$1,201	$—	$1,224	$—
Financial liabilities				
Secured borrowings, net	$694,040	$—	$—	$693,255
Borrowings under repurchase agreement	$276,385	$—	$276,385	$—
Convertible senior notes, net	$102,571	$109,641	$—	$—

December 31, 2016	Carrying Value	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
Financial assets				
Mortgage loans	$869,091	$ —	$—	$930,226
Investment in debt securities	$6,323	$ —	$6,323	$—
Investment in Manager [(1)]	$—	$ —	$—	$2,888
Investment in AS Ajax E	$1,291	$ —	$1,323	$—
Financial liabilities				
Secured borrowings, net	$442,670	$ —	$—	$436,623
Borrowings under repurchase agreement	$227,440	$ —	$227,440	$—
Convertible senior notes, net	$—	$ —	$—	$—

(1) The Company's investment in its Manager is carried at $0 as this equity interest was received for no consideration at the time of the Company's original private placement in July 2014.

The fair value of mortgage loans is estimated using the Manager’s proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The value of transfers of mortgage loans to REO is based upon the present value of future expected cash flows of the loans being transferred.

The fair value of secured borrowings is estimated using the Manager’s proprietary pricing model which estimates expected cash flows of the underlying mortgage loans which collateralize the debt, and which drive the cash flows used to make interest payments. The discount rate used in the present value calculation represents the estimated effective yield of the underlying mortgages.

The Company values its Investment in debt securities using estimates provided by banking institutions.

The Company’s borrowings under repurchase agreement are short-term in nature, and the Company’s management believes it can renew the current borrowing arrangements on similar terms in the future. Accordingly, the carrying value of these borrowings approximates fair value.

The Company's Convertible senior notes are traded on the NYSE; the debt's fair value is determined from the NYSE closing price on the Balance Sheet date.
The carrying values of its Cash and cash equivalents, Cash held in trust, Receivable from servicer, Investment in affiliates, Loans purchase deposit, Management fee payable and Other liabilities are equal to or approximate fair value.
Non-financial assets
Property held-for-sale is carried at the lower of its acquisition basis or net realizable value. Fair market value is determined based on appraisals, broker price opinions, or other market indicators of fair value. Since net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income, aggregate fair value for the Company's REO Property is conservatively stated as its carrying value. The following tables set forth the fair value of non-financial assets by level within the fair value hierarchy as of December 31, 2017 and 2016 ($ in thousands):

			Level 1	Level 2	Level 3
December 31, 2017	Carrying Value	Fair value adjustment recognized in the consolidated statements of income	Quoted prices in active markets	Observable inputs other than Level 1 prices	Unobservable inputs
Non-financial assets					
Property held-for-sale	$24,947	$ 2,516	$ —	$ —	$ 24,947

			Level 1	Level 2	Level 3
December 31, 2016	Carrying Value	Fair value adjustment recognized in the consolidated statements of income	Quoted prices in active markets	Observable inputs other than Level 1 prices	Unobservable inputs
Non-financial Assets					
Property held-for-sale	$23,882	$ 2,011	$ —	$ —	$ 23,882

During the year ended December 31, 2017, the Company transferred the balance of its Property held-for-sale from Level 2 to Level 3 to reflect the additional uncertainty inherent in the estimation process for real estate values. There were no transfers between levels during the year ended December 31, 2016.

Note 6 — Affiliates
Unconsolidated Affiliates
During the year ended December 31, 2017, a small-balance commercial loan secured by a commercial property in Portland, Oregon, in which the Company held a 40.5% interest through a Delaware trust, GA-E 2014-12, was paid off in full. The Company received a distribution of $2.6 million related to this investment. At December 31, 2017, GA-E 2014-12 held cash of $7,000 and had accrued expenses of $5,000. Upon final settlement of all obligations, any remaining cash is expected to be distributed between the investors in proportion to their ownership interests. The Company accounts for its investment in GA-E 2014-12 using the equity method.
Upon the closing of the Company's original private placement in July 2014, the Company received a 19.8% equity interest in the Manager, a privately held company for which there is no public market for its securities. The Company accounts for its investment in the Manager using the equity method.
On March 14, 2016, the Company formed AS Ajax E LLC, to hold an equity interest in a Delaware trust formed to own residential mortgage loans and residential real estate assets. AS Ajax E LLC owns a 5% equity interest in Ajax E Master Trust which holds a portfolio of RPLs. At the time of the original investment, the Company held a 24.2%

interest in AS Ajax E LLC. In October 2016, additional capital contributions were made by third parties, and the Company’s ownership interest in AS Ajax E was reduced to a lower percentage of the total. At both December 31, 2017 and 2016, the Company’s interest in AS Ajax E was approximately 16.5%. The Company accounts for its investment using the equity method.

During the year ended 2016, the Company sold $78.2 million of RPLs for total proceeds of $78.1 million to Ajax E Master Trust. Additionally, the Company made a loan to AS Ajax E LLC in the amount of $4.0 million at LIBOR plus 5.22% to fund its interest in the purchase, which was subsequently repaid during the year, less $0.3 million which was converted to equity.

The table below shows the net income, assets and liabilities for the Company’s unconsolidated affiliates at 100%, and at the Company’s share ($ in thousands):

Net income, assets and liabilities of unconsolidated affiliates at 100%

	For the year ended December 31,		
Net income at 100%	2017	2016	2015
GA-E 2014-12	$426	$762	$871
Thetis Asset Management	$2,136	$1,100	$998
AS Ajax E LLC	$319	$138	$—

	For the year ended December 31,			
	2017		2016	
Assets and Liabilities at 100%	Assets	Liabilities	Assets	Liabilities
GA-E 2014-12	$7	$ 5	$6,259	$ —
Thetis Asset Management	$7,415	$ 1,674	$4,846	$ 1,167
AS Ajax E LLC	$7,293	$ 5	$7,964	$ 12

Net income, assets and liabilities of unconsolidated affiliates at Company share

	For the year ended December 31,		
Net income at Company share	2017	2016	2015
GA-E 2014-12	$173	$308	$353
Thetis Asset Management	$423	$218	$198
AS Ajax E LLC	$53	$32	$—

	For the year ended December 31,			
	2017		2016	
Assets and Liabilities at Company share	Assets	Liabilities	Assets	Liabilities
GA-E 2014-12	$3	$ 2	$2,535	$ —
Thetis Asset Management	$1,468	$ 331	$960	$ 231
AS Ajax E LLC	$1,203	$ 1	$1,314	$ 2

Consolidated affiliates

The Company consolidates the results and balances of securitization trusts which are established to provide debt financing to the Company by securitizing pools of mortgage loans. These trusts are considered to be VIE's, and the Company has determined that it is the primary beneficiary of the VIE's.

The Company also consolidates the activities and balances of its controlled affiliates, which include AS Ajax E II, which was established to hold an equity interest in a Delaware trust formed to own residential mortgage loans and residential real estate assets, and 2017-D, a securitization trust formed to hold mortgage loans, REO property and secured debt. As of December 31, 2017, AS Ajax E II was 53.1% owned by the Company, with the remainder held by third parties, and 2017-D was 50% owned by a third-party institutional investor. The Company consolidates the results and balances of both AS Ajax E II and 2017-D in its consolidated financial statements, and recognizes a non-controlling interest on its consolidated Balance Sheet for the amount of the investment due to the third party investors at December 31, 2017. Additionally, a non-controlling interest in the earnings of both AS Ajax E II and 2017-D is recognized in the Company's Consolidated Statement of Income for the year ended December 31, 2017, which consists of the proportionate amount of income attributable to the third party investors.

Note 7 — Commitments and Contingencies

The Company regularly enters into agreements to acquire additional mortgage loans and mortgage-related assets, subject to continuing diligence on such assets and other customary closing conditions. There can be no assurance that the Company will acquire any or all of the mortgage loans identified in any acquisition agreement as of the date of these consolidated financial statements, and it is possible that the terms of such acquisitions may change.

At December 31, 2017, the Company had commitments to purchase, subject to due diligence, 104 RPLs secured by single-family residences with aggregate UPB of $21.3 million. The Company will only acquire loans that meet the acquisition

criteria for its own portfolios, or those of its joint venture partners. See Note 15 - Subsequent Events, for remaining open acquisitions as of the filing date.

Litigation, Claims and Assessments

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. As of December 31, 2017, the Company was not a party to, and its properties were not subject to, any pending or threatened legal proceedings that individually or in the aggregate, are expected to have a material impact on its financial condition, results of operations or cash flows.

Note 8 — Debt

Repurchase Agreement

The Company has entered into two repurchase facilities whereby the Company, through two wholly-owned Delaware trusts (the “Trusts”) acquires pools of mortgage loans which are then sold by the Trusts, as “Seller” to two separate counterparties, the “buyer” or “buyers.” One facility has a ceiling of $250.0 million and the other $200.0 million at any one time. Upon the time of the initial sale to the buyer, the Trust, with a simultaneous agreement, also agrees to repurchase the pools of mortgage loans from the buyer. Mortgage loans sold under these facilities carry interest calculated based on a spread to one-month LIBOR, which are fixed for the term of the borrowing. The purchase price that the Trust realizes upon the initial sale of the mortgage loans to the buyer can vary between 70% and 85% of the asset’s acquisition price, depending upon the facility being utilized and/or the quality of the underlying collateral. The obligations of a Trust to repurchase these mortgage loans at a future date are guaranteed by the Operating Partnership. The difference between the market value of the asset and the amount of the repurchase agreement is generally the amount of equity the Company has in the position and is intended to provide the buyer with some protection against fluctuations in the value of the collateral, and/or a failure by the Company to repurchase the asset and repay the borrowing at maturity. The Company has effective control over the assets subject to these transactions; therefore the Company’s repurchase transactions are accounted for as financing arrangements.

The Servicer services these mortgage loans pursuant to the terms of a Servicing Agreement by and among the Servicer and each Buyer which Servicing Agreement has the same fees and expenses terms as the Company’s Servicing Agreement described under Note 9 — Related party transactions. The Operating Partnership, as guarantor, will provide to the buyers a limited guaranty of certain losses incurred by the buyers in connection with certain events and/or the Seller’s obligations under the mortgage loan purchase agreement, following the breach of certain covenants by the Seller, the occurrence of certain bad acts by the Seller, the occurrence of certain insolvency events of the Seller or other events specified in the Guaranty. As security for its obligations under the Guaranty, the guarantor will pledge the Trust Certificate representing the Guarantor’s 100% beneficial interest in the Seller.

Additionally, the Company has sold subordinate securities from its mortgage securitizations in repurchase transactions. The following table sets forth the details of the Company’s repurchase transactions and facilities ($ in thousands):

		December 31, 2017				
Maturity Date	Origination date	Maximum Borrowing Capacity	Amount Outstanding	Amount of Collateral	Percentage of Collateral Coverage	Interest Rate
April 30, 2018	October 31, 2017	$ 10,601	$ 10,601	$ 15,145	143 %	3.66 %
May 8, 2018	November 8, 2017	15,227	15,227	21,754	143 %	3.69 %
June 7, 2018	December 7, 2017	66,678	66,678	88,904	133 %	3.59 %
November 21, 2018	November 22, 2017	200,000	3,775	8,215	218 %	4.79 %
July 12, 2019	July 15, 2016	250,000	180,104	234,724	130 %	4.03 %
Totals		$ 542,506	$ 276,385	$ 368,742	133 %	3.91 %

		December 31, 2016				
Maturity Date	Origination date	Maximum Borrowing Capacity	Amount Outstanding	Amount of Collateral	Percentage of Collateral Coverage	Interest Rate
March 9, 2017	September 9, 2016	$10,310	$10,309	$14,728	143 %	3.32 %
March 30, 2017	September 30, 2016	10,797	10,797	15,424	143 %	3.34 %
May 8, 2017	November 9, 2016	14,986	14,986	21,409	143 %	3.35 %
November 21, 2017	November 22, 2016	200,000	21,302	36,044	169 %	4.20 %
July 12, 2019	July 15, 2016	200,000	170,046	226,192	133 %	3.25 %
Totals		$436,093	$227,440	$313,797	138 %	3.35 %

The guaranty establishes a master netting arrangement; however, the arrangement does not meet the criteria for offsetting within the Company's consolidated Balance Sheets. A master netting arrangement derives from contractual agreements entered into by two parties to multiple contracts that provides for the net settlement of all contracts covered by the agreements in the event of default under any one contract. The amount outstanding on the Company's repurchase facilities and the carrying value of the Company's loans pledged as collateral are presented as gross amounts in the Company's consolidated balance sheets at December 31, 2017 and 2016 in the table below ($ in thousands):

	Gross amounts not offset in balance sheet	
	December 31, 2017	December 31, 2016
Gross amount of recognized liabilities	$276,385	$227,440
Gross amount pledged as collateral	368,742	313,797
Net amount	$92,357	$86,357

Secured Borrowings

From inception (January 30, 2014) to December 31, 2017, the Company has completed 12 secured borrowings pursuant to Rule 144A under the Securities Act, seven of which were outstanding at December 31, 2017. The secured borrowings are structured as debt financings and not sales through a real estate investment conduit ("REMIC"), and the loans included in the secured borrowings remain on the Company's consolidated balance sheet as the Company is the primary beneficiary of the securitization trusts, which are VIEs. The securitization VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. The Company's exposure to the obligations of the VIEs is generally limited to its investments in the entities. The notes that are issued by the securitization trusts are secured solely by the mortgages held by the applicable trusts and not by any of the Company's other assets. The mortgage loans of the applicable trusts are the only source of repayment and interest on the notes issued by such trusts. The Company does not guarantee any of the obligations of the trusts under the terms of the agreement governing the notes or otherwise.

The Company's secured borrowings are structured with Class A notes, subordinate notes, and trust certificates, which have rights to the residual interests in the mortgages once the notes are repaid. With the exception of the Company's 2017-D securitization, from which the Company sold a 50% interest in the trust certificate to a third party, the Company has retained the subordinate notes and the trust certificates from the seven secured borrowings outstanding at December 31, 2017. The Class A notes are senior, sequential pay, fixed rate notes. The Class B notes and Class M notes are subordinate, sequential pay, fixed rate notes. If the Class A notes have not been redeemed by the payment date 36 months after issue, or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the subordinate notes will be paid as principal to the Class A notes on that date and each subsequent payment date until the Class A notes are paid in full. After the Class A notes are paid in full, the subordinate notes will resume receiving their respective interest payment amounts and any interest that accrued but was not paid while the Class A notes were outstanding. As the holder of the trust certificates, the Company is entitled to receive any remaining amounts in the trusts after the Class A notes and subordinate notes have

been paid in full.

The following table sets forth the original terms of all securitization notes outstanding at December 31, 2017 at their respective cutoff dates:

Issuing Trust/Issue Date	Security	Original Principal	Interest Rate
Ajax Mortgage Loan Trust 2016-A/ April 2016	Class A notes due 2064	$101.4 million	4.25 %
	Class B-1 notes due 2064(1,4)	$7.9 million	5.25 %
	Class B-2 notes due 2064(1,4)	$7.9 million	5.25 %
	Trust certificates(2)	$41.3 million	— %
	Deferred issuance costs	$(2.7) million	— %
Ajax Mortgage Loan Trust 2016-B/ August 2016	Class A notes due 2065	$84.4 million	4.00 %
	Class B-1 notes due 2065(1,4)	$6.6 million	5.25 %
	Class B-2 notes due 2065(1,4)	$6.6 million	5.25 %
	Trust certificates(2)	$34.1 million	— %
	Deferred issuance costs	$(1.6) million	— %
Ajax Mortgage Loan Trust 2016-C/ October 2016	Class A notes due 2057	$102.6 million	4.00 %
	Class B-1 notes due 2057(1,4)	$7.9 million	5.25 %
	Class B-2 notes due 2057(1,4)	$7.9 million	5.25 %
	Trust certificates(2)	$39.4 million	— %
	Deferred issuance costs	$(1.6) million	— %
Ajax Mortgage Loan Trust 2017-A/ May 2017	Class A notes due 2057	$140.7 million	3.47 %
	Class B-1 notes due 2057(1)	$15.1 million	5.25 %
	Class B-2 notes due 2057(1)	$10.8 million	5.25 %
	Trust certificates(2)	$49.8 million	— %
	Deferred issuance costs	$(2.0) million	— %
Ajax Mortgage Loan Trust 2017-B/ December 2017	Class A notes due 2056	$115.8 million	3.16 %
	Class M-1 notes due 2056(3)	$9.7 million	3.50 %
	Class M-2 notes due 2056(3)	$9.5 million	3.50 %
	Class B-1 notes due 2056(1)	$9.0 million	3.75 %
	Class B-2 notes due 2056(1)	$7.5 million	3.75 %
	Trust certificates(2)	$14.3 million	— %
	Deferred issuance costs	$(1.8) million	— %
Ajax Mortgage Loan Trust 2017-C/ November 2017	Class A notes due 2060	$130.2 million	3.75 %
	Class B-1 notes due 2060(1)	$13.0 million	5.25 %
	Trust certificates(2)	$42.8 million	— %
	Deferred issuance costs	$(1.7) million	— %
Ajax Mortgage Loan Trust 2017-D/ December 2017	Class A notes due 2057(5)	$177.8 million	3.75 %
	Class B certificates due 2057(4,5)	$44.5 million	— %
	Deferred issuance costs	$(1.1) million	— %

(1) The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. The Company has retained the Class B notes.

(2) The trust certificates issued by the trusts and the beneficial ownership of the trusts are retained by Great Ajax Funding LLC as the depositor. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trusts after the Class A notes, Class M notes, where present, and Class B notes have been paid in full.

(3) The Class M notes are subordinate, sequential pay, fixed rate notes with Class M-2 notes subordinate to the Class M-1 notes. We have retained the Class M notes.

(4) These securities are encumbered under a repurchase agreement.

(5) AJAXM 2017-D is a joint venture in which a third party owns 50% of the Class A notes and 50% of the Class B certificates. We are required to consolidate 2017-D under GAAP and are reflecting 100% of the mortgage loans, in Mortgage loans, net. 50% of the Class A notes. which are held by the third party, are included in Secured borrowings, net and 50% of the Class B-1 certificates are recognized as Non-controlling interest.

Servicing for the mortgage loans in the Company's securitizations is provided by the Servicer at a servicing fee rate of an annual servicing fee rate of 0.65% of outstanding UPB for RPLs at acquisition and 1.25% of outstanding UPB for loans that are non-performing at acquisition, and is paid monthly. The determination of RPL or NPL status is based on the status of the loan at acquisition and does not change regardless of the loan's subsequent performance. The following table sets forth the status of the notes held by others at December 31, 2017 and 2016, and the securitization cutoff date:

	Balances at December 31, 2017			Balances at December 31, 2016			Original balances at securitization cutoff date	
Class of Notes	Carrying value of mortgages	Bond principal balance	Percentage of collateral coverage	Carrying value of mortgages	Bond principal balance	Percentage of collateral coverage	Mortgage UPB	Bond principal balance
2015-A	$—	$—	— %	$51,388	$29,476	174 %	$75,835	$35,643
2015-B	—	—	— %	104,111	75,258	138 %	158,498	87,174
2015-C	—	—	— %	100,614	66,979	150 %	130,130	81,982
2016-A	110,585	82,556	134 %	118,189	96,158	123 %	158,485	101,431
2016-B	93,772	71,361	131 %	97,660	80,672	121 %	131,746	(1) 84,430
2016-C	116,357	88,400	132 %	126,681	101,209	125 %	157,808	102,575
2017-A	170,805	126,507	135 %	—	—	— %	216,413	140,669
2017-B	143,799	115,846	124 %	—	—	— %	165,850	115,846
2017-C	157,015	129,191	122 %	—	—	— %	185,942	130,159
2017-D	203,870	88,903 (3)	229 %	—	—	— %	203,870	(2) 88,903
	$996,203	$702,764	142 %	$598,643	$449,752	133 %	$1,584,577	$968,812

(1) Includes $1.9 million of cash collateral.

(2) Includes $26.7 million of cash collateral intended for use in the acquisition of additional mortgage loans.

(3) The gross amount of senior bonds issued was $177.8 million, however, only $88.9 million is reflected in Secured borrowings as the remainder is owned by the Company.

The Company's obligations under its secured borrowings are not fixed, and the payments on these borrowings are predicated upon cash flows received on the underlying mortgage loans.

Convertible Senior Notes

On April 25, 2017, the Company completed the issuance and sale of $87.5 million aggregate principal amount of its 7.25% Convertible senior notes due 2024, in an underwritten public offering. The net proceeds to the Company from the sale of the notes, after deducting the underwriter's discounts, commissions and offering expenses, were approximately $84.9 million. The carrying amount of the equity component of the transaction was $2.5 million representing the fair value to the notes' owners of the right to convert the notes into shares of the Company's common

stock. The notes were issued at a 17.5% conversion premium and bear interest at a rate of 7.25% per year, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, beginning on July 15, 2017.
On August 18, 2017, the Company completed the public offer and sale of an additional $20.5 million in aggregate principal amount of its 7.25% Convertible senior notes due 2024, which combined with the $87.5 million aggregate principal amount from its April offering, form a single series of securities. The net proceeds to the Company from the August 18, 2017 sale of the notes, after deducting the underwriter's discounts, commissions and offering expenses, were approximately $20.5 million. The carrying amount of the equity component of the August transaction was $0.2 million representing the fair value to the notes' owners of the right to convert the notes into shares of the Company's common stock.
The notes in the August transaction were issued at a 6.0% conversion premium and bear interest at a rate of 7.25% per year, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, beginning on July 15, 2017. The notes will mature on April 30, 2024, unless earlier repurchased, redeemed or converted.

Holders may convert their notes at their option prior to April 30, 2023 only under certain circumstances. In addition, the notes will be convertible irrespective of those circumstances from, and including, April 30, 2023 to, and including, the business day immediately preceding the maturity date. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election.
The conversion rate currently equals 1.6313 shares of the Company's common stock per $25.00 principal amount of notes which is equivalent to a conversion price of approximately $15.33 per share of common stock. The conversion rate, and thus the conversion price, may be subject to adjustment under certain circumstances. As of December 31, 2017, the amount by which the if-converted value falls short of the principal value for the entire series is $10.6 million.
The Company may not redeem the notes prior to April 30, 2022, and may redeem for cash all or any portion of the notes, at its option, on or after April 30, 2022 if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No "sinking fund" will be provided for the notes.
At December 31, 2017, the notes' UPB was $108.0 million, and discount and deferred expenses were $5.4 million. Interest expense of $5.3 million was recognized during the year ended December 31, 2017 which includes $0.5 million of amortization of discount and deferred expenses. The discount will be amortized through April 30, 2023, the date at which the notes can be converted. The effective interest rate of the notes at December 31, 2017 was 8.65%.

Note 9 — Related Party Transactions

The Company’s consolidated Statements of Income included the following significant related party transactions ($ in thousands):

	For the year ended December 31, 2017		
	Consolidated Statement of Income location	Counterparty	Amount
Loan servicing fees	Related party expense – loan servicing fees	Gregory	$ 8,245
Management fee	Related party expense – management fee	Thetis	$ 5,340
Due diligence and related loan acquisition costs	Loan transaction expense	Gregory	$ 101
Expense reimbursements	Other fees and expenses	Gregory	$ 80
Expense reimbursements	Other fees and expenses	Thetis	$ 4
	For the year ended December 31, 2016		
	Consolidated Statement of Income location	Counterparty	Amount
Loan servicing fees	Related party expense – loan servicing fees	Gregory	$ 6,083
Management fee	Related party expense – management fee	Thetis	$ 3,949
Due diligence and related loan acquisition costs	Loan transaction expense	Gregory	$ 100
Expense reimbursements	Other fees and expenses	Gregory	$ 67
Expense reimbursements	Other fees and expenses	Thetis	$ 28
	For the year ended December 31, 2015		
	Consolidated Statement of Income location	Counterparty	Amount
Loan servicing fees	Related party expense – loan servicing fees	Gregory	$ 3,959
Management fee	Related party expense – management fee	Thetis	$ 3,353
Due diligence and related loan acquisition costs	Loan transaction expense	Gregory	$ 75
Expense reimbursements	Professional fees	Gregory	$ —
Expense reimbursements	Other fees	Thetis	$ —

The Company’s consolidated balance sheets included the following significant related party balances ($ in thousands):

	As of December 31, 2017		
	Consolidated Balance Sheet location	Counterparty	Amount
Receivables from Servicer	Receivable from Servicer	Gregory	$17,005
Investment in subordinated debt securities	Investment in debt securities	Oileus Residential Loan Trust	$6,285
Management fee payable	Management fee payable	Thetis	$750
Servicing fees payable	Accrued expenses and other liabilities	Gregory	$217
Expense reimbursement receivable	Prepaid expenses and other assets	Thetis	$—
	As of December 31, 2016		
	Consolidated Balance Sheet location	Counterparty	Amount
Receivables from Servicer	Receivable from Servicer	Gregory	$12,481
Investment in subordinated debt securities	Investment in debt securities	Oileus Residential Loan Trust	$6,323
Management fee payable	Management fee payable	Thetis	$750
Servicing fees payable	Accrued expenses and other liabilities	Gregory	$195
Expense reimbursement receivable	Prepaid expenses and other assets	Thetis	$—

During October 2016, the Company acquired 370 RPLs with aggregate UPB of $69.9 million in three transactions from three related party trusts. These loans, which had previously been serviced by the Servicer, had made at least 24 payments of scheduled principal and interest at the time of their acquisition by the Company, and had a weighted average coupon of 5.84%. The loans were acquired at 93% of UPB with an estimated market value of the underlying collateral of $92.2 million.

In October 2016, the Company purchased subordinate debt securities for $6.3 million from Oileus Residential Loan Trust, a related party. These notes have a stated final maturity of October 25, 2056. At December 31, 2017, these securities were carried on the Company’s consolidated balance sheet at an amortized cost basis of $6.3 million, which approximates fair value. During the year ended December 31, 2017, the Company made a decision to transfer these notes to available-for-sale status in anticipation of reinvesting the proceeds from any sale into additional mortgage loans. Accordingly, the carrying amount of $6.3 million was transferred from held-to-maturity to available-for-sale status during the year. For the year ended December 31, 2017, the Company recorded unrealized losses of $0.2 million, which are reflected in the Company's consolidated Statements of Comprehensive Income.

Management Agreement

The Company is a party to the Management Agreement with the Manager, which expires on July 8, 2029. Under the Management Agreement, the Manager implements the Company’s business strategy and manages the Company’s business and investment activities and day-to-day operations, subject to oversight by the Company’s Board of Directors. Among other services, the Manager, directly or through Aspen affiliates, provides the Company with a management team and necessary administrative and support personnel. The Company does not currently have any employees that it pays directly and does not expect to have any employees that it pays directly in the foreseeable future. Each of the Company’s executive officers is an employee or officer, or both, of the Manager or the Servicer. Under the Management Agreement, the Company pays both a base management fee and an incentive fee to the Manager.

The base management fee equals 1.5% of the Company's stockholders’ equity, including equity equivalents such as the Company's recent issuance of Convertible senior notes, per annum and calculated and payable quarterly in arrears. The initial $1.0 million of the quarterly base management fee will be payable 75% in cash and 25% in shares of the Company’s common stock. Any amount of the base management fee in excess of $1.0 million will be payable in shares of the Company’s common stock until payment is 50% in cash and 50% in shares (the “50/50 split”). Any remaining amount of the quarterly base management fee after the 50/50 split threshold is reached will be payable in equal amounts of cash and shares. The Manager has agreed to hold any shares of common stock received by it as payment of the base management fee for at least three years from the date such shares of common stock are received.

The Manager is also entitled to an incentive fee, payable quarterly and calculated in arrears, of 20% of the amount by which total dividends on common stock and distributions on OP units exceeds 8% of book value on a per share basis. However,

no incentive fee will be payable to the Manager with respect to any calendar quarter unless the Company's cumulative core earnings, defined as U.S. GAAP net income or loss less non-cash equity compensation, unrealized gains or losses from mark-to-market adjustments, one-time adjustments to earnings resulting from changes to U.S. GAAP, and certain other non-cash items, is greater than zero for the most recently completed eight calendar quarters. In the event that the payment of the quarterly base management fee has not reached the 50/50 split, all of the incentive fee will be payable in shares of the Company's common stock until the 50/50 split occurs. In the event that the total payment of the quarterly base management fee and the incentive fee has reached the 50/50 split, 20% of the remaining incentive fee is payable in shares of the Company's common stock and 80% of the remaining incentive fee is payable in cash. To date, no incentive fees have been paid to the Manager.

The Company also reimburses the Manager for all third-party, out-of-pocket costs incurred by the Manager for managing its business, including third-party diligence and valuation consultants, legal expenses, auditors and other financial services. The reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash on a monthly basis.

The Company will be required to pay the Manager a termination fee in the event that the Management Agreement is terminated as a result of (i) a termination by the Company without cause, (ii) its decision not to renew the Management Agreement upon the determination of at least two thirds of the Company's independent directors for reasons including the failure to agree on revised compensation, (iii) a termination by the Manager as a result of the Company becoming regulated as an "investment company" under the Investment Company Act of 1940, as amended (the "Investment Company Act") (other than as a result of the acts or omissions of the Manager in violation of investment guidelines approved by the Company's Board of Directors), or (iv) a termination by the Manager if the Company defaults in the performance of any material term of the Management Agreement (subject to a notice and cure period). The termination fee will be equal to twice the combined base fee and incentive fees payable to the Manager during the 12-month period ended as of the end of the most recently completed fiscal quarter prior to the date of termination.

Servicing Agreement

The Company is also a party to the Servicing Agreement, expiring July 8, 2029, with the Servicer. The Company's overall servicing costs under the Servicing Agreement will vary based on the types of assets serviced.

Servicing fees range from 0.65% to 1.25% annually of current UPB (or the fair market value or purchase price of REO the Company owns or acquires), and are paid monthly. The total fees incurred by the Company for these services depend upon the UPB and type of mortgage loans that the Servicer services pursuant to the terms of the Servicing Agreement. The fees are determined based on the loan's status at acquisition and do not change if a performing loan becomes non-performing or vice versa.

The Company will also reimburse the Servicer for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations to REO properties. The total fees incurred by the Company for these services will be dependent upon the property value, previous UPB of the relevant loan, and the number of REO properties.

If the Servicing Agreement has been terminated other than for cause and/or the Servicer terminates the servicing agreement, the Company will be required to pay a termination fee equal to the aggregate servicing fees payable under the servicing agreement for the immediate preceding 12-month period. See Note 15 - Subsequent events.

Trademark Licenses

Aspen has granted the Company a non-exclusive, non-transferable, non-sublicensable, royalty-free license to use the name "Great Ajax" and the related logo. The Company also has a similar license to use the name "Thetis." The agreement has no specified term. If the Management Agreement expires or is terminated, the trademark license agreement will terminate within 30 days. In the event that this agreement is terminated, all rights and licenses granted thereunder, including, but not limited to, the right to use "Great Ajax" in its name will terminate. Aspen also granted to the Manager a substantially identical non-exclusive, non-transferable, non-sublicensable, royalty-free license use of the name "Thetis."

Note 10 — Stock-based Payments and Director Fees

Pursuant to the terms of the Management Agreement, the Company pays a portion of the base fee to the Manager in shares of its common stock with the number of shares determined based on the higher of the most recently reported book value or the average of the closing prices of its common stock on the NYSE on the five business days after the date on which the most recent regular quarterly dividend to holders of its common stock is paid. The Company paid the Manager a base management fee for the year ended December 31, 2017 of $5.3 million, of which the Company paid $2.3 million in 150,652 shares of its common stock. The shares issued to the Manager are restricted securities subject to transfer restrictions, and were

issued in private placement transactions, with 48,654 shares still issuable at December 31, 2017. See Note 9 — Related party transactions.

In addition, each of the Company's independent directors receives an annual retainer of $75,000, payable quarterly, half of which is paid in shares of the Company's common stock on the same basis as the stock portion of the management fee payable to the Manager and half in cash. Until December 31, 2016, directors received an annual fee of $50,000 payable quarterly, half of which was paid in shares of the Company's common stock and half in cash.

The following table sets forth the Company's stock-based management fees and independent director fees ($ in thousands except share amounts):

Management Fees and Director Fees

	For the year ended December 31,					
	2017		2016		2015	
	Number of shares	Amount of expense recognized[(1)]	Number of shares	Amount of expense recognized[(1)]	Number of shares	Amount of expense recognized[(1)]
Management fees	150,652	2,335	70,957	$ 1,068	85,497	$ 1,239
Independent director fees	9,708	150	6,648	100	6,872	100
	160,360	$ 2,485	77,605	$ 1,168	92,369	$ 1,339

(1) All management fees and independent director fees are fully expensed in the period in which the underlying expense is incurred.

Restricted Stock

Each independent director is issued a restricted stock award of 2,000 shares of the Company's common stock subject to a one-year vesting period upon initial appointment to the Company's Board. On August 17, 2016, the Company granted 153,000 shares of restricted stock to employees of its Manager and Servicer, which was reduced in 2017 by forfeitures of 4,000 shares; and on July 24, 2017, the Company granted 39,000 shares of restricted stock to employees of its Manager and Servicer. The shares vest over three years, with one third of the shares vesting on each of the first, second and third anniversaries of the grant date. The shares may not be sold until the third anniversary of the grant date. The 2017 grant also includes a provision whereby the shares vest automatically upon the death of the grantee. Grants of restricted stock to officers of the Company use grant date fair value of the stock as the basis for measuring the cost of the grant. The cost of grants of restricted stock to employees of the Company's affiliates is determined using the stock price as of the date at which the counterparty's performance is complete.

The following table sets forth the activity in the Company’s restricted stock plans ($ in thousands, except share and per share amounts):

	Total Grants		Activity		Non-vested shares at December 31, 2017		Fully-vested shares at December 31, 2017	
Year ended December 31, 2017	Total shares granted	Total expected cost of grant	Shares granted during the year	Grant expense recognized for the year	Shares	Per share grant fair value	Shares	Per share grant date fair value
Directors’ Grants[(1)]	10,000	$ 146	—	$ 14	—	$—	10,000	$ 14.61
Employee and Service Provider Grant, granted 2016[(2,4)]	149,000	2,027	—	675	99,333	13.50	49,667	13.50
Employee and Service Provider Grant, granted 2017[(3)]	39,000	542	39,000	76	39,000	13.95	—	—
Totals	198,000	$ 2,715	39,000	$ 765	138,333	$ 13.63	59,667	$ 13.69

(1) Vesting period is one year from grant date. Grant is fully vested at December 31, 2017.
(2) Vesting is ratable over three-year period from grant date. Weighted average remaining life of grant at December 31, 2017 is 1.6 years.
(3) Vesting is ratable over three-year period from grant date. Weighted average remaining life of grant at December 31, 2017 is 2.6 years
(4) Total is shown net of 2017 forfeitures of 4,000 shares.

	Total Grants		Activity		Non-vested shares at December 31, 2016		Fully-vested shares at December 31, 2016	
Year ended December 31, 2016	Total shares granted	Total expected cost of grant	Shares granted during the year	Grant expense recognized for the year	Shares	Per share grant fair value	Shares	Per share grant date fair value
Directors’ Grants[(1)]	10,000	$ 146	2,000	$ 16	2,000	$ 13.79	8,000	$ 13.79
Employee and Service Provider Grant, granted 2016[(2)]	153,000	2,053	153,000	278	153,000	13.50	—	—
Totals	163,000	$ 2,199	155,000	$ 294	155,000	$ 13.50	8,000	$ 13.79

(1) Vesting period is one year from grant date. Weighted average remaining life of grant at December 31, 2016 is 0.5 years.
(2) Vesting is ratable over three-year period from grant date. Weighted average remaining life of grant at December 31, 2016 is 2.6 years.

	Total Grants		Activity		Non-vested shares at December 31, 2015		Fully-vested shares at December 31, 2015	
Year ended December 31, 2015	Total shares	Total expected	Shares granted	Grant expense	Shares	Per share	Shares	Weighted average

	granted	cost of grant	during the year	recognized for the year		grant fair value		grant date fair value
Directors' Grants[1]	8,000	$ 29	2,000	$ 71	2,000	$ 14.25	6,000	$ 14.25
Employee and Service Provider Grant[2]	—	—	—	—	—	—	—	—
Totals	8,000	$ 29	2,000	$ 71	2,000	$ 14.25	6,000	$ 14.25

(1) Vesting period is one year from grant date.
(2) Vesting is ratable over three-year period from grant date.

Note 11 — Income Taxes

As a REIT, the Company must meet certain organizational and operational requirements including the requirement to distribute at least 90% of its annual REIT taxable income to its stockholders. As a REIT, the Company generally will not be

subject to U.S. federal income tax to the extent the Company distributes its REIT taxable income to its stockholders and provided the Company satisfies the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which it lost its REIT qualification.
The Company’s consolidated Financial Statements include the operations of two TRS entities, GA-TRS and GAJX Real Estate LLC, which are subject to U.S. federal, state and local income taxes on their taxable income.
For the year ended December 31, 2017, the Company’s consolidated Taxable Income was $18.0 million; and provisions for income taxes of $0.1 million. For the year ended December 31, 2016, the Company’s consolidated Taxable Income was $15.9 million; and provisions for income taxes of $35,000. For the year ended December 31, 2015, the Company’s taxable income was $10.8 million; and provisions for income taxes of $2,000. The Company recognized no deferred income tax assets or liabilities on its consolidated balance sheets at December 31, 2017 or 2016. The Company also recorded no interest or penalties for the years ended December 31, 2017, 2016 and 2015.

Note 12 — Earnings per Share

The following table sets forth the components of basic and diluted EPS ($ in thousands, except share and per share amounts):

	For the year ended December 31, 2017		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Consolidated net income attributable to common stockholders	$28,927	18,074,143	
Allocation of earnings to participating restricted shares	(321)	—	
Consolidated net income attributable to unrestricted common stockholders	$28,606	18,074,143	$ 1.58
Effect of dilutive securities			
Operating Partnership units	998	624,106	
Restricted stock grants and Manager and director fee shares	321	203,083	
Interest expense (add back) and assumed conversion of shares from convertible senior notes	5,289	4,417,189	
Diluted EPS			
Consolidated net income attributable to common stockholders and dilutive securities	$35,214	23,318,521	$ 1.51

	For the year ended December 31, 2016		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Consolidated net income attributable to common stockholders	$27,836	16,742,882	
Allocation of earnings to participating restricted shares	(140)	—	
Consolidated net income attributable to unrestricted common stockholders	$27,696	16,742,882	$ 1.65
Effect of dilutive securities			
Operating Partnership units	1,038	624,106	
Restricted stock grants and Manager and director fee shares	140	84,919	
Diluted EPS			
Consolidated net income attributable to common stockholders and dilutive securities	$28,874	17,451,907	$ 1.65

	For the year ended December 31, 2015		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Consolidated net income attributable to common stockholders	$24,754	14,711,610	
Allocation of earnings to participating restricted shares	(62)	—	
Consolidated net income attributable to unrestricted common stockholders	$24,692	14,711,610	$ 1.68
Effect of dilutive securities			
Operating Partnership units	1,038	624,106	
Restricted stock grants and Manager and director fee shares	62	36,772	
Diluted EPS			
Consolidated net income attributable to common stockholders and dilutive securities	$25,792	15,372,488	$ 1.68

Note 13 — Equity

Common stock

As of December 31, 2017 and 2016 the Company had 18,588,228 and 18,122,387 shares, respectively, of $0.01 par value common stock outstanding with 125,000,000 shares authorized at each year end.

Preferred stock

The Company had no shares of preferred stock outstanding at December 31, 2017 or 2016. There were 25,000,000 shares authorized at each year end.

Dividend Reinvestment Plan

The Company sponsors a dividend reinvestment plan through which stockholders may purchase additional shares of the Company’s common stock by reinvesting some or all of the cash dividends received on shares of the Company’s common stock. During the year ended December 31, 2017 and 2016, 12,710 and 3,835 shares, respectively, were issued under the plan for total proceeds of approximately $0.2 million and $0.1 million, respectively.

At-the-Market Offering

The Company has entered into an equity distribution agreement under which the Company may sell shares of its common stock having an aggregate offering price of up to $50.0 million from time to time in any method permitted by law deemed to be an “at the market” offering as defined in Rule 415 under the Securities Act of 1933, as amended, or the Securities Act. During the year ended December 31, 2017, 286,841 shares of common stock have been sold under the At-the-Market program for total proceeds of approximately $4.1 million; no shares were sold under the At-the-market program during 2016.

Accumulated Other Comprehensive Income (Loss)

The Company recognizes temporary holding gains or losses on its investment in debt securities as components of Other comprehensive income (loss). Accumulated other comprehensive income (loss) at December 31, 2017, 2016 and 2015 was as follows ($ in thousands):

	For the year ended December 31,		
	2017	2016	2015
Investment in debt securities:			
Unrealized gains	$9	$ —	$ —
Unrealized losses	(242)	—	—
Accumulated other comprehensive income (loss)	$(233)	$ —	$ —

Non-controlling Interest

At December 31, 2017, the Company had non-controlling interests attributable to ownership interests by three legal entities.

The Company’s operating partnership, which is majority-owned by the Company, had 624,106 partnership units held by an independent third party at December 31, 2017 and 2016. The Company consolidates the assets, liabilities, revenues and expenses of the operating partnership.

During the year ended December 31, 2017, the Company established AS Ajax E II LLC, to purchase and hold an investment in a Delaware trust which holds single family residential real estate loans, SBC loans and other real estate assets. AS Ajax E II LLC is 46.9% held by third parties. The Company has retained 53.1% of AS Ajax E II LLC and consolidates the assets, liabilities, revenues and expenses of the entity.
During the fourth quarter of 2017, the Company established 2017-D, a securitization trust, which is 50% held by an institutional investor. The Company has retained 50% of 2017-D and consolidates the assets, liabilities, revenues and expenses of the trust.

Note 14 — Quarterly Financial Information (unaudited):
The following table sets forth our quarterly financial information ($ in thousands):

For the year ended December 31, 2017	First quarter	Second quarter	Third quarter	Fourth quarter
Total income	$13,667	$13,105	$14,226	$13,797
Income before provision for income tax	$8,699	$7,150	$7,763	$6,673
Net income attributable to common stockholders	$8,409	$6,864	$7,470	$6,184
Basic earnings common share	$0.46	$0.38	$0.41	$0.34
Diluted earnings per common share	$0.46	$0.36	$0.38	$0.33
For the year ended December 31, 2016	First quarter	Second quarter	Third quarter	Fourth quarter
Total income	$11,456	$10,843	$12,106	$12,292
Income before provision for income tax	$7,960	$6,887	$7,905	$6,157
Net income attributable to common stockholders	$7,651	$6,605	$7,623	$5,957
Basic earnings common share	$0.50	$0.42	$0.42	$0.33
Diluted earnings per common share	$0.50	$0.42	$0.42	$0.33

Note 15 — Subsequent Events
Loan Acquisitions
During January and February 2018, the Company acquired 85 RPLs with an aggregate UPB of $18.9 million in three transactions. The loans were acquired at 89.3% of UPB and the estimated market value of the underlying collateral is $31.2 million. The purchase price equaled 53.9% of the estimated market value of the underlying collateral. The Company also acquired a 32-unit multi-family apartment building with a purchase price of $3.5 million.
Additionally, the Company has agreed to acquire, subject to due diligence, 422 RPLs with aggregate UPB of $91.6 million in five transactions from five different sellers. The purchase price equals 95.8% of UPB and 55.8% of the estimated market value of the underlying collateral of $157.3 million. The Company also agreed to purchase two SBC loans with UPB of $2.7 million. The investment will equal 67.8% of the underlying collateral value of $3.9 million. Some of these loans may be acquired through joint ventures with unrelated third parties.
Investment in Servicer
On January 26, 2018, the Company agreed to acquire an 8% ownership interest in GAFS, the parent of the Company's servicer, Gregory Funding LLC. The acquisition is expected to be completed in two transactions. January 26, 2018 was the initial closing date wherein a 4.9% interest in GAFS and three warrants, each exercisable for a 2.45% interest in GAFS upon payment of additional consideration, in exchange for consideration of $1.1 million of cash and 45,938 shares of the Company's common stock with a value of approximately $0.6 million. At the date of an additional closing, expected to take place approximately 121 days afterward, depending upon receipt of all necessary approvals, consents and authorizations, an additional 3.1% interest in GAFS, and three warrants, each exercisable for a 1.55% interest in GAFS in exchange for consideration of $0.7 million of cash and shares of the Company's common stock with a value of approximately $0.4 million, with the actual number of shares dependent upon the common stock's price at the close of trading on the day immediately preceding the date of the additional closing.
Management Fees

On February 16, 2018, the Company issued 48,654 shares of its common stock to the Manager in payment of the portion of the base management fee which is payable in common stock for the fourth quarter of 2017 in a private transaction. The management fee expense associated with these shares was recorded as an expense in the fourth quarter of 2017.

Directors' Retainer

On February 16, 2018, the Company issued to each of its four independent directors 607 shares of its common stock in payment of half of their quarterly director fees for the fourth quarter of 2017.

Dividend Declaration

On February 21, 2018, the Company's Board of Directors declared a dividend of $0.30 per share, to be paid on March 30, 2018 to stockholders of record as of March 15, 2018.

Schedule IV
Mortgage loans on real estate
December 31, 2017
($ in thousands)

Description (face value of loan)	Loan Count	Interest rate	Maturity	Carrying amount of mortgages[1]	Principal amount subject to delinquent principal and interest	Amount of balloon payments at maturity
$0 – 49,999	636	1.00% - 12.99%	08/13/2008 – 06/01/2057	$ 17,050	$ 7,554	$ 1,869
$50,000 – 99,999	1,244	1.00% - 12.95%	09/01/2009 – 11/01/2057	83,137	36,184	5,797
$100,000 – 149,999	1,396	1.00% - 13.34%	04/19/2009 – 08/01/2065	150,560	67,190	10,036
$150,000 – 199,999	981	2.00% - 12.50%	03/01/2019 – 08/01/2065	146,783	63,062	8,961
$200,000 – 249,999	672	2.00% - 10.95%	10/20/2018 – 07/01/2064	127,182	57,322	11,794
$250,000+	1,972	1.00% - 11.50%	01/01/2014 – 05/01/2066	728,829	278,513	118,722
Total	6,901			$ 1,253,541	$ 509,825	$ 157,179

(1) The aggregate cost for federal income tax purposes is ($1,196.5 million) as of December 31, 2017.

The following table sets forth the activity in our mortgage loans ($ in thousands):

Mortgage loans	January 1, 2017 through December 31, 2017
Beginning carrying value[1]	$ 869,091
Mortgage loan portfolio acquisitions, net cost basis	459,194
Mortgage loan portfolio originations	9,083
Dispositions	—
Accretion recognized	89,881
Payments received, net	(153,930)
Reclassifications to REO	(20,294)
Other	516
Ending carrying value	$ 1,253,541

(1) Beginning carrying value for January 1, 2017 has been presented net of $1.5 million of borrower advances reclassified to Prepaid expenses and other assets.