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

FORM 10-Q

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

For the quarterly period ended June 30, 2022

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

For the transition period from __________ to ___________

Commission File Number**: 001-35236**

ORCHIDISLAND CAPITAL

Orchid Island Capital, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**27-3269228**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3305 Flamingo Drive, Vero Beach, Florida 32963
(Address of principal executive offices) (Zip Code)

(772) 231-1400
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol:	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	ORC	New York Stock Exchange

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

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

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

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

Emerging growth company ☐

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

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

Number of shares outstanding at August 4, 2022: 176,251,193

ORCHID ISLAND CAPITAL, INC.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ORCHID ISLAND CAPITAL, INC.
CONDENSED BALANCE SHEETS
($ in thousands, except per share data)

	(Unaudited) June 30, 2022	December 31, 2021
ASSETS:		
Mortgage-backed securities, at fair value (includes pledged assets of $3,926,165 and $6,506,372, respectively)	$ 3,940,860	$ 6,511,095
U.S. Treasury Notes, at fair value (includes pledged assets of $36,302 and $29,740, respectively)	36,302	37,175
Cash and cash equivalents	218,975	385,143
Restricted cash	64,396	65,299
Accrued interest receivable	13,932	18,859
Derivative assets	198,484	50,786
Other assets	1,420	320
Total Assets	$ 4,474,369	$ 7,068,677
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	$ 3,758,980	$ 6,244,106
Dividends payable	7,960	11,530
Derivative liabilities	43,591	7,589
Accrued interest payable	3,940	788
Due to affiliates	1,138	1,062
Other liabilities	152,398	35,505
Total Liabilities	3,968,007	6,300,580
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 100,000,000 shares authorized; no shares issued and outstanding as of June 30, 2022 and December 31, 2021	-	-
Common Stock, $0.01 par value; 500,000,000 shares authorized, 176,251,193 shares issued and outstanding as of June 30, 2022 and 176,993,049 shares issued and outstanding as of December 31, 2021	1,763	1,770
Additional paid-in capital	796,219	849,081
Accumulated deficit	(291,620)	(82,754)
Total Stockholders' Equity	506,362	768,097
Total Liabilities and Stockholders' Equity	$ 4,474,369	$ 7,068,677

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
For the Three and Six Months Ended June 30, 2022 and 2021
($ in thousands, except per share data)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021
Interest income	$ 77,125	$ 56,110	$ 35,268	$ 29,254
Interest expense	(10,835)	(3,497)	(8,180)	(1,556)
Net interest income	66,290	52,613	27,088	27,698
Realized (losses) gains on mortgage-backed securities	(66,529)	(6,045)	(15,443)	1,352
Unrealized (losses) gains on mortgage-backed securities and U.S. Treasury Notes	(480,560)	(96,147)	(170,598)	(7,281)
Gains (losses) on derivative and other hedging instruments	281,574	10,557	103,758	(34,915)
Net portfolio loss	(199,225)	(39,022)	(55,195)	(13,146)
Expenses:				
Management fees	5,265	3,413	2,631	1,792
Allocated overhead	960	799	519	395
Incentive compensation	551	625	314	261
Directors' fees and liability insurance	621	595	310	323
Audit, legal and other professional fees	606	620	302	302
Direct REIT operating expenses	1,217	715	574	294
Other administrative	421	445	294	352
Total expenses	9,641	7,212	4,944	3,719
Net loss	$ (208,866)	$ (46,234)	$ (60,139)	$ (16,865)
Basic and diluted net loss per share	$ (1.18)	$ (0.50)	$ (0.34)	$ (0.17)
Weighted Average Shares Outstanding	177,015,963	92,456,082	177,034,159	99,489,065
Dividends declared per common share	$ 0.290	$ 0.390	$ 0.135	$ 0.195

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Six Months Ended June 30, 2022 and 2021
(in thousands)

	Common Stock		Additional Paid-in	Retained Earnings	
	Shares	Par Value	Capital	(Deficit)	Total
Balances, January 1, 2021	76,073	$ 761	$ 432,524	$ (17,994)	$ 415,291
Net loss	-	-	-	(29,369)	(29,369)
Cash dividends declared	-	-	(17,226)	-	(17,226)
Issuance of common stock pursuant to public offerings, net	18,248	182	96,726	-	96,908
Stock based awards and amortization	90	1	571	-	572
Balances, March 31, 2021	94,411	$ 944	$ 512,595	$ (47,363)	$ 466,176
Net income	-	-	-	(16,865)	(16,865)
Cash dividends declared	-	-	(20,416)	-	(20,416)
Issuance of common stock pursuant to public offerings, net	23,087	231	124,515	-	124,746
Stock based awards and amortization	2	-	180	-	180
Balances, June 30, 2021	117,500	$ 1,175	$ 616,874	$ (64,228)	$ 553,821
Balances, January 1, 2022	176,993	$ 1,770	$ 849,081	$ (82,754)	$ 768,097
Net loss	-	-	-	(148,727)	(148,727)
Cash dividends declared	-	-	(27,492)	-	(27,492)
Stock based awards and amortization	124	1	539	-	540
Balances, March 31, 2022	177,117	$ 1,771	$ 822,128	$ (231,481)	$ 592,418
Net loss	-	-	-	(60,139)	(60,139)
Cash dividends declared	-	-	(23,936)	-	(23,936)
Stock based awards and amortization	10	-	237	-	237
Shares repurchased and retired	(876)	(8)	(2,210)	-	(2,218)
Balances, June 30, 2022	176,251	$ 1,763	$ 796,219	$ (291,620)	$ 506,362

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Six Months Ended June 30, 2022 and 2021
($ in thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (208,866)	$ (46,234)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock based compensation	404	429
Realized losses on mortgage-backed securities	66,529	6,045
Unrealized losses on mortgage-backed securities and U.S. Treasury Notes	480,560	96,147
Realized and unrealized gains on derivative instruments	(161,731)	(13,483)
Changes in operating assets and liabilities:		
Accrued interest receivable	4,927	(2,826)
Other assets	(583)	(172)
Accrued interest payable	3,152	(115)
Other liabilities	198	(1,305)
Due to affiliates	76	162
NET CASH PROVIDED BY OPERATING ACTIVITIES	184,666	38,648
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(190,638)	(2,986,864)
Sales	1,934,606	1,680,903
Principal repayments	279,534	259,425
Net proceeds from (payments on) derivative instruments	167,307	(17,446)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	2,190,809	(1,063,982)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	22,121,707	13,582,422
Principal payments on repurchase agreements	(24,606,833)	(12,663,304)
Cash dividends	(54,979)	(34,927)
Proceeds from issuance of common stock, net of issuance costs	-	221,654
Shares repurchased and retired	(2,218)	-
Shares withheld from employee stock awards for payment of taxes	(223)	(299)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(2,542,546)	1,105,546
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(167,071)	80,212
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period	450,442	299,506
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period	$ 283,371	$ 379,718
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 7,683	$ 3,611
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Securities sold settled in later period	$ -	$ 154,977

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)
JUNE 30, 2022

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

Orchid Island Capital, Inc. ("Orchid" or the "Company"), was incorporated in Maryland on August 17, 2010 for the purpose of creating and managing a leveraged investment portfolio consisting of residential mortgage-backed securities ("RMBS"). From incorporation to February 20, 2013, Orchid was a wholly owned subsidiary of Bimini Capital Management, Inc. ("Bimini"). Orchid began operations on November 24, 2010 (the date of commencement of operations). From incorporation through November 24, 2010, Orchid's only activity was the issuance of common stock to Bimini.

On August 4, 2020, Orchid entered into an equity distribution agreement (the "August 2020 Equity Distribution Agreement") with four sales agents pursuant to which the Company could offer and sell, from time to time, up to an aggregate amount of $150,000,000 of shares of the Company's common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. The Company issued a total of 27,493,650 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $150.0 million, and net proceeds of approximately $147.4 million, after commissions and fees, prior to its termination in June 2021.

On January 20, 2021, Orchid entered into an underwriting agreement (the "January 2021 Underwriting Agreement") with J.P. Morgan Securities LLC ("J.P. Morgan"), relating to the offer and sale of 7,600,000 shares of the Company's common stock. J.P. Morgan purchased the shares of the Company's common stock from the Company pursuant to the January 2021 Underwriting Agreement at $5.20 per share. In addition, the Company granted J.P. Morgan a 30-day option to purchase up to an additional 1,140,000 shares of the Company's common stock on the same terms and conditions, which J.P. Morgan exercised in full on January 21, 2021. The closing of the offering of 8,740,000 shares of the Company's common stock occurred on January 25, 2021, with proceeds to the Company of approximately $45.2 million, net of offering expenses.

On March 2, 2021, Orchid entered into an underwriting agreement (the "March 2021 Underwriting Agreement") with J.P. Morgan, relating to the offer and sale of 8,000,000 shares of the Company's common stock. J.P. Morgan purchased the shares of the Company's common stock from the Company pursuant to the March 2021 Underwriting Agreement at $5.45 per share. In addition, the Company granted J.P. Morgan a 30-day option to purchase up to an additional 1,200,000 shares of the Company's common stock on the same terms and conditions, which J.P. Morgan exercised in full on March 3, 2021. The closing of the offering of 9,200,000 shares of the Company's common stock occurred on March 5, 2021, with proceeds to the Company of approximately $50.0 million, net of offering expenses.

On June 22, 2021, Orchid entered into an equity distribution agreement (the "June 2021 Equity Distribution Agreement") with four sales agents pursuant to which the Company could offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of the Company's common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. The Company issued a total of 49,407,336 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $250.0 million, and net proceeds of approximately $246.0 million, after commissions and fees, prior to its termination in October 2021.

On October 29, 2021, Orchid entered into an equity distribution agreement (the “October 2021 Equity Distribution Agreement”) with four sales agents pursuant to which the Company may offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of the Company’s common stock in transactions that are deemed to be “at the market” offerings and privately negotiated transactions. Through June 30, 2022, the Company issued a total of 15,835,700 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $78.3 million, and net proceeds of approximately $77.0 million, after commissions and fees. No shares were issued under the October 2021 Equity Distribution Agreement during the six months ended June 30, 2022.

Basis of Presentation and Use of Estimates

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six and three month period ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

The balance sheet at December 31, 2021 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates affecting the accompanying financial statements are the fair values of RMBS and derivatives. Management believes the estimates and assumptions underlying the financial statements are reasonable based on the information available as of June 30, 2022.

Variable Interest Entities (“VIEs”)

The Company obtains interests in VIEs through its investments in mortgage-backed securities. The Company’s interests in these VIEs are passive in nature and are not expected to result in the Company obtaining a controlling financial interest in these VIEs in the future. As a result, the Company does not consolidate these VIEs and accounts for these interests in these VIEs as mortgage-backed securities. See Note 2 for additional information regarding the Company’s investments in mortgage-backed securities. The maximum exposure to loss for these VIEs is the carrying value of the mortgage-backed securities.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments with original maturities of three months or less at the time of purchase. Restricted cash includes cash pledged as collateral for repurchase agreements and other borrowings, and interest rate swaps and other derivative instruments.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

(in thousands)	June 30, 2022	December 31, 2021
Cash and cash equivalents	$ 218,975	$ 385,143
Restricted cash	64,396	65,299
Total cash, cash equivalents and restricted cash	$ 283,371	$ 450,442

The Company maintains cash balances at three banks and excess margin on account with two exchange clearing members. At times, balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. The Federal Deposit Insurance Corporation insures eligible accounts up to $250,000 per depositor at each financial institution. Restricted cash balances are uninsured, but are held in separate customer accounts that are segregated from the general funds of the counterparty. The Company limits uninsured balances to only large, well-known banks and exchange clearing members and believes that it is not exposed to any significant credit risk on cash and cash equivalents or restricted cash balances.

Mortgage-Backed Securities and U.S. Treasury Notes

The Company invests primarily in mortgage pass-through ("PT") residential mortgage backed securities ("RMBS") and collateralized mortgage obligations ("CMOs") issued by Freddie Mac, Fannie Mae or Ginnie Mae, interest-only ("IO") securities and inverse interest-only ("IIO") securities representing interest in or obligations backed by pools of RMBS. The Company refers to RMBS and CMOs as PT RMBS. The Company refers to IO and IIO securities as structured RMBS. The Company also invests in U.S. Treasury Notes, primarily to satisfy collateral requirements of derivative counterparties. The Company has elected to account for its investment in RMBS and U.S. Treasury Notes under the fair value option. Electing the fair value option requires the Company to record changes in fair value in the statement of operations, which, in management's view, more appropriately reflects the results of the Company's operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

The Company records securities transactions on the trade date. Security purchases that have not settled as of the balance sheet date are included in the portfolio balance with an offsetting liability recorded, whereas securities sold that have not settled as of the balance sheet date are removed from the portfolio balance with an offsetting receivable recorded.

Fair value is defined as the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market for the asset or liability, or in the absence of a principal market, occurs in the most advantageous market for the asset or liability. Estimated fair values for RMBS are based on independent pricing sources and/or third party broker quotes, when available. Estimated fair values for U.S. Treasury Notes are based on quoted prices for identical assets in active markets.

Income on PT RMBS and U.S. Treasury Notes is based on the stated interest rate of the security. Premiums or discounts present at the date of purchase are not amortized. Premium lost and discount accretion resulting from monthly principal repayments are reflected in unrealized gains (losses) on RMBS in the statements of operations. For IO securities, the income is accrued based on the carrying value and the effective yield. The difference between income accrued and the interest received on the security is characterized as a return of investment and serves to reduce the asset's carrying value. At each reporting date, the effective yield is adjusted prospectively for future reporting periods based on the new estimate of prepayments and the contractual terms of the security. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security. Changes in fair value of RMBS during each reporting period are recorded in earnings and reported as unrealized gains or losses on mortgage-backed securities in the accompanying statements of operations.

Derivative and Other Hedging Instruments

The Company uses derivative and other hedging instruments to manage interest rate risk, facilitate asset/liability strategies and manage other exposures, and it may continue to do so in the future. The principal instruments that the Company has used to date are Treasury Note ("T-Note"), federal funds ("Fed Funds") and Eurodollar futures contracts, short positions in U.S. Treasury securities, interest rate swaps, options to enter in interest rate swaps ("interest rate swaptions") and "to-be-announced" ("TBA") securities transactions, but the Company may enter into other derivative and other hedging instruments in the future.

The Company accounts for TBA securities as derivative instruments. Gains and losses associated with TBA securities transactions are reported in gain (loss) on derivative instruments in the accompanying statements of operations.

Derivative and other hedging instruments are carried at fair value, and changes in fair value are recorded in earnings for each period. The Company's derivative financial instruments are not designated as hedge accounting relationships, but rather are used as economic hedges of its portfolio assets and liabilities. Gains and losses on derivatives, except those that result in cash receipts or payments, are included in operating activities on the statement of cash flows. Cash payments and cash receipts from settlements of derivatives, including current period net cash settlements on interest rates swaps, are classified as an investing activity on the statements of cash flows.

Holding derivatives creates exposure to credit risk related to the potential for failure on the part of counterparties and exchanges to honor their commitments. In the event of default by a counterparty, the Company may have difficulty recovering its collateral and may not receive payments provided for under the terms of the agreement. The Company's derivative agreements require it to post or receive collateral to mitigate such risk. In addition, the Company uses only registered central clearing exchanges and well-established commercial banks as counterparties, monitors positions with individual counterparties and adjusts posted collateral as required.

Financial Instruments

The fair value of financial instruments for which it is practicable to estimate that value is disclosed either in the body of the financial statements or in the accompanying notes. RMBS, Eurodollar, Fed Funds and T-Note futures contracts, interest rate swaps, interest rate swaptions and TBA securities are accounted for at fair value in the balance sheets. The methods and assumptions used to estimate fair value for these instruments are presented in Note 12 of the financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, receivable for securities sold, other assets, due to affiliates, repurchase agreements, payable for unsettled securities purchased, accrued interest payable and other liabilities generally approximates their carrying values as of June 30, 2022 and December 31, 2021 due to the short-term nature of these financial instruments.

Repurchase Agreements

The Company finances the acquisition of the majority of its RMBS through the use of repurchase agreements under master repurchase agreements. Repurchase agreements are accounted for as collateralized financing transactions, which are carried at their contractual amounts, including accrued interest, as specified in the respective agreements.

Manager Compensation

The Company is externally managed by Bimini Advisors, LLC (the "Manager" or "Bimini Advisors"), a Maryland limited liability company and wholly-owned subsidiary of Bimini. The Company's management agreement with the Manager provides for payment to the Manager of a management fee and reimbursement of certain operating expenses, which are accrued and expensed during the period for which they are earned or incurred. Refer to Note 13 for the terms of the management agreement.

Earnings Per Share

Basic earnings per share ("EPS") is calculated as net income or loss attributable to common stockholders divided by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is calculated using the treasury stock or two-class method, as applicable, for common stock equivalents, if any. However, the common stock equivalents are not included in computing diluted EPS if the result is anti-dilutive.

Stock-Based Compensation

The Company may grant equity-based compensation to non-employee members of its Board of Directors and to the executive officers and employees of the Manager. Stock-based awards issued include performance units, deferred stock units and immediately vested common stock awards. Compensation expense is measured and recognized for all stock-based payment awards made to employees and non-employee directors based on the fair value of the Company's common stock on the date of grant. Compensation expense is recognized over each award's respective service period using the graded vesting attribution method. The Company does not estimate forfeiture rates; but rather, adjusts for forfeitures in the periods in which they occur.

Income Taxes

Orchid has elected and is organized and operated so as to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). REITs are generally not subject to federal income tax on their REIT taxable income provided that they distribute to their stockholders all of their REIT taxable income on an annual basis. A REIT must distribute at least 90% of its REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gain, and meet other requirements of the Code to retain its tax status.

Orchid assesses the likelihood, based on their technical merit, that uncertain tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. All of Orchid's tax positions are categorized as highly certain. There is no accrual for any tax, interest or penalties related to Orchid's tax position assessment. The measurement of uncertain tax positions is adjusted when new information is available, or when an event occurs that requires a change.

Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04 "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.*" ASU 2020-04 provides optional expedients and exceptions to GAAP requirements for modifications on debt instruments, leases, derivatives, and other contracts, related to the expected market transition from the London Interbank Offered Rate ("LIBOR"), and certain other floating rate benchmark indices, or collectively, IBORs, to alternative reference rates. ASU 2020-04 generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination. The guidance in ASU 2020-04 is optional and may be elected over time, through December 31, 2022, as reference rate reform activities occur. The Company does not believe the adoption of this ASU will have a material impact on its financial statements.

In January 2021, the FASB issued ASU 2021-01 "*Reference Rate Reform (Topic 848*)." ASU 2021-01 expands the scope of ASC 848 to include all affected derivatives and give market participants the ability to apply certain aspects of the contract modification and hedge accounting expedients to derivative contracts affected by the discounting transition. In addition, ASU 2021-01 adds implementation guidance to permit a company to apply certain optional expedients to modifications of interest rate indexes used for margining, discounting or contract price alignment of certain derivatives as a result of reference rate reform initiatives and extends optional expedients to account for a derivative contract modified as a continuation of the existing contract and to continue hedge accounting when certain critical terms of a hedging relationship change to modifications made as part of the discounting transition. The guidance in ASU 2021-01 is effective immediately and available generally through December 31, 2022, as reference rate reform activities occur. The Company does not believe the adoption of this ASU will have a material impact on its financial statements.

NOTE 2. MORTGAGE-BACKED SECURITIES AND U.S. TREASURY NOTES

The following table presents the Company's RMBS portfolio as of June 30, 2022 and December 31, 2021:

(in thousands)

	June 30, 2022	December 31, 2021
Pass-Through RMBS Certificates:		
Fixed-rate Mortgages	$ 3,766,151	$ 6,298,189
Total Pass-Through Certificates	3,766,151	6,298,189
Structured RMBS Certificates:		
Interest-Only Securities	173,754	210,382
Inverse Interest-Only Securities	955	2,524
Total Structured RMBS Certificates	174,709	212,906
Total	$ 3,940,860	$ 6,511,095

As of June 30, 2022 and December 31, 2021, the Company held U.S. Treasury Notes with a fair value of approximately $36.3 million and $37.2 million, respectively, primarily to satisfy collateral requirements of one of its derivative counterparties.

The following table is a summary of the Company's net gain (loss) from the sale of RMBS for the six months ended June 30, 2022 and 2021.

	Six Months Ended June 30,	
	2022	2021
Proceeds from sales of RMBS	$ 1,934,606	$ 1,680,903
Carrying value of RMBS sold	(2,001,135)	(1,686,948)
Net (loss) gain on sales of RMBS	$ (66,529)	$ (6,045)
Gross gain on sales of RMBS	$ 2,705	$ 4,890
Gross loss on sales of RMBS	(69,234)	(10,935)
Net (loss) gain on sales of RMBS	$ (66,529)	$ (6,045)

NOTE 3. REPURCHASE AGREEMENTS

The Company pledges certain of its RMBS as collateral under repurchase agreements with financial institutions. Interest rates are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is generally paid at the termination of a borrowing. If the fair value of the pledged securities declines, lenders will typically require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of the pledged securities increases, lenders may release collateral back to the Company. As of June 30, 2022, the Company had met all margin call requirements.

As of June 30, 2022 and December 31, 2021, the Company's repurchase agreements had remaining maturities as summarized below:

($ in thousands)

	OVERNIGHT (1 DAY OR LESS)	BETWEEN 2 AND 30 DAYS	BETWEEN 31 AND 90 DAYS	GREATER THAN 90 DAYS(1)	TOTAL
June 30, 2022					
Fair market value of securities pledged, including accrued interest receivable	$ -	$ 2,990,637	$ 887,951	$ 60,809	$ 3,939,397
Repurchase agreement liabilities associated with these securities	$ -	$ 2,866,787	$ 843,343	$ 48,850	$ 3,758,980
Net weighted average borrowing rate	-	1.33%	1.48%	0.79%	1.36%
December 31, 2021					
Fair market value of securities pledged, including accrued interest receivable	$ -	$ 4,624,396	$ 1,848,080	$ 52,699	$ 6,525,175
Repurchase agreement liabilities associated with these securities	$ -	$ 4,403,182	$ 1,789,327	$ 51,597	$ 6,244,106
Net weighted average borrowing rate	-	0.15%	0.13%	0.15%	0.15%

1) Includes a repurchase agreement with an outstanding principal balance of approximately $48.9 million as of June 30, 2022, with an interest rate indexed to Secured Overnight Financing Rate ("SOFR") that reprices daily.

In addition, cash pledged to counterparties for repurchase agreements was approximately $51.1 million and $57.3 million as of June 30, 2022 and December 31, 2021, respectively.

If, during the term of a repurchase agreement, a lender files for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable and cash posted by the Company as collateral. At June 30, 2022, the Company had an aggregate amount at risk (the difference between the amount loaned to the Company, including interest payable and securities posted by the counterparty (if any), and the fair value of securities and cash pledged (if any), including accrued interest on such securities) with all counterparties of approximately $227.6 million. The Company did not have an amount at risk with any individual counterparty that was greater than 10% of the Company's equity at June 30, 2022 and December 31, 2021.

NOTE 4. DERIVATIVE AND OTHER HEDGING INSTRUMENTS

The table below summarizes fair value information about the Company's derivative and other hedging instruments assets and liabilities as of June 30, 2022 and December 31, 2021.

(in thousands)

Derivative and Other Hedging Instruments	Balance Sheet Location	June 30, 2022	December 31, 2021
Assets			
Interest rate swaps	Derivative assets, at fair value	$ 104,138	$ 29,293
Payer swaptions (long positions)	Derivative assets, at fair value	88,852	21,493
Interest rate caps	Derivative assets, at fair value	3,837	-
TBA securities	Derivative assets, at fair value	1,657	-
Total derivative assets, at fair value		$ 198,484	$ 50,786
Liabilities			
Interest rate swaps	Derivative liabilities, at fair value	$ -	$ 2,862
Payer swaptions (short positions)	Derivative liabilities, at fair value	43,296	4,423
TBA securities	Derivative liabilities, at fair value	295	304
Total derivative liabilities, at fair value		$ 43,591	$ 7,589
Margin Balances Posted to (from) Counterparties			
Futures contracts	Restricted cash	$ 12,795	$ 8,035
TBA securities	Restricted cash	471	-
TBA securities	Other liabilities	(1,772)	(856)
Interest rate swaption contracts	Other liabilities	(43,249)	(6,350)
Total margin balances on derivative contracts		$ (31,755)	$ 829

Eurodollar, Fed Funds and T-Note futures are cash settled futures contracts on an interest rate, with gains and losses credited or charged to the Company's cash accounts on a daily basis. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. The tables below present information related to the Company's T-Note futures positions at June 30, 2022 and December 31, 2021.

($ in thousands)

	June 30, 2022			
Expiration Year	**Average Contract Notional Amount**	**Weighted Average Entry Rate**	**Weighted Average Effective Rate**	**Open Equity[(1)]**
Treasury Note Futures Contracts (Short Positions)[(2)]				
September 2022 5-year T-Note futures				
(Sep 2022 - Sep 2027 Hedge Period)	$ 1,200,500	3.13%	3.32%	$ 4,138
September 2022 10-year Ultra futures				
(Sep 2022 - Sep 2032 Hedge Period)	$ 274,500	2.64%	2.84%	$ 2,442

($ in thousands)

Expiration Year		December 31, 2021 Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate		Open Equity[1]
Treasury Note Futures Contracts (Short Position)[2]						
March 2022 5-year T-Note futures						
(Mar 2022 - Mar 2027 Hedge Period)	$	369,000	1.56%	1.62%	$	1,013
March 2022 10-year Ultra futures						
(Mar 2022 - Mar 2032 Hedge Period)	$	220,000	1.22%	1.09%	$	(3,861)

(1) Open equity represents the cumulative gains (losses) recorded on open futures positions from inception.

(2) 5-Year T-Note futures contracts were valued at a price of $112.25 at June 30, 2022 and $120.98 at December 31, 2021. The contract values of the short positions were $1,347.6 million and $446.4 million at June 30, 2022 and December 31, 2021, respectively. 10-Year Ultra futures contracts were valued at a price of $127.38 at June 30, 2022 and $146.44 at December 31, 2021. The contract value of the short position was $349.6 million and $322.2 million at June 30, 2022 and December 31, 2021, respectively

Under its interest rate swap agreements, the Company typically pays a fixed rate and receive a floating rate based on an index ("payer swaps"). The floating rate the Company receives under its swap agreements has the effect of offsetting the repricing characteristics of our repurchase agreements and cash flows on such liabilities. The Company is typically required to post collateral on its interest rate swap agreements. The table below presents information related to the Company's interest rate swap positions at June 30, 2022 and December 31, 2021.

($ in thousands)

		Notional Amount	Average Fixed Pay Rate	Average Receive Rate		Net Estimated Fair Value	Average Maturity (Years)
June 30, 2022							
Expiration > 3 to ≤ 5 years	$	500,000	0.84%	1.95%	$	43,221	4.2
Expiration > 5 years		900,000	1.70%	1.32%		60,917	7.1
	$	1,400,000	1.39%	1.54%	$	104,138	6.1
December 31, 2021							
Expiration > 3 to ≤ 5 years	$	955,000	0.64%	0.16%	$	21,788	4.0
Expiration > 5 years		400,000	1.16%	0.21%		4,643	7.3
	$	1,355,000	0.79%	0.18%	$	26,431	5.0

The table below presents information related to the Company's interest rate cap positions at June 30, 2022.

($ in thousands)

Expiration		Notional Amount		Cost	Strike Swap Rate	Curve Spread		Net Estimated Fair Value
February 8, 2024	$	200,000	$	2,350	0.09%	10Y2Y	$	3,837

The table below presents information related to the Company's interest rate swaption positions at June 30, 2022 and December 31, 2021.

($ in thousands)

	Option			Underlying Swap			
Expiration	Cost	Fair Value	Weighted Average Months to Expiration	Notional Amount	Average Fixed Rate	Average Adjustable Rate (LIBOR)	Weighted Average Term (Years)
June 30, 2022							
Payer Swaptions - long							
≤ 1 year	$ 31,905	$ 65,684	8.3	$ 1,282,400	2.44%	3 Month	11.3
>1 year ≤ 2 years	24,050	23,168	15.8	728,400	3.00%	3 Month	10.0
	$ 55,955	$ 88,852	11.0	$ 2,010,800	2.65%	3 Month	10.8
Payer Swaptions - short							
≤ 1 year	$ (22,250)	$ (43,296)	2.8	$ (1,433,000)	2.65%	3 Month	10.8
December 31, 2021							
Payer Swaptions - long							
≤ 1 year	$ 4,000	$ 1,575	3.2	$ 400,000	1.66%	3 Month	5.0
>1 year ≤ 2 years	32,690	19,918	18.4	1,258,500	2.46%	3 Month	14.1
	$ 36,690	$ 21,493	14.7	$ 1,658,500	2.27%	3 Month	11.9
Payer Swaptions - short							
≤ 1 year	$ (16,185)	$ (4,423)	5.3	$ (1,331,500)	2.29%	3 Month	11.4

The following table summarizes the Company's contracts to purchase and sell TBA securities as of June 30, 2022 and December 31, 2021.

($ in thousands)

	Notional Amount Long (Short)(1)	Cost Basis(2)	Market Value(3)	Net Carrying Value(4)
June 30, 2022				
30-Year TBA securities:				
2.0%	$ (175,000)	$ (153,907)	$ (152,250)	$ 1,657
15-Year TBA securities:				
3.5%	175,000	174,434	174,139	(295)
Total	$ -	$ 20,527	$ 21,889	$ 1,362
December 31, 2021				
30-Year TBA securities:				
3.0%	$ (575,000)	$ (595,630)	$ (595,934)	$ (304)
Total	$ (575,000)	$ (595,630)	$ (595,934)	$ (304)

(1) Notional amount represents the par value (or principal balance) of the underlying Agency RMBS.
(2) Cost basis represents the forward price to be paid (received) for the underlying Agency RMBS.
(3) Market value represents the current market value of the TBA securities (or of the underlying Agency RMBS) as of period-end.
(4) Net carrying value represents the difference between the market value and the cost basis of the TBA securities as of period-end and is reported in derivative assets (liabilities) at fair value in the balance sheets.

Gain (Loss) From Derivative and Other Hedging Instruments, Net

The table below presents the effect of the Company's derivative and other hedging instruments on the statements of operations for the six and three months ended June 30, 2022 and 2021.

(in thousands)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2022	2021	2022	2021
T-Note futures contracts (short position)	$ 122,968	$ 285	$ 43,073	$ (2,191)
Eurodollar futures contracts (short positions)	-	(7)	-	(19)
Interest rate swaps	106,103	9,446	39,819	(17,677)
Payer swaptions (short positions)	(44,944)	1,212	(34,036)	27,379
Payer swaptions (long positions)	91,314	3,710	50,339	(36,360)
Interest rate caps	1,487	-	2,483	-
Interest rate floors	-	1,300	-	(84)
TBA securities (short positions)	3,552	3,170	1,013	(5,963)
TBA securities (long positions)	1,094	(8,559)	1,067	-
Total	$ 281,574	$ 10,557	$ 103,758	$ (34,915)

Credit Risk-Related Contingent Features

The use of derivatives and other hedging instruments creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. The Company attempts to minimize this risk by limiting its counterparties for instruments which are not centrally cleared on a registered exchange to major financial institutions with acceptable credit ratings and monitoring positions with individual counterparties. In addition, the Company may be required to pledge assets as collateral for its derivatives, whose amounts vary over time based on the market value, notional amount and remaining term of the derivative contract. In the event of a default by a counterparty, the Company may not receive payments provided for under the terms of its derivative agreements, and may have difficulty obtaining its assets pledged as collateral for its derivatives. The cash and cash equivalents pledged as collateral for the Company derivative instruments are included in restricted cash on its balance sheets.

It is the Company's policy not to offset assets and liabilities associated with open derivative contracts. However, Chicago Mercantile Exchange ("CME") and Intercontinental Exchange ("ICE") rules characterize variation margin transfers as settlement payments, as opposed to adjustments to collateral. As a result, derivative assets and liabilities associated with centrally cleared derivatives for which the CME or ICE serves as the central clearing party are presented as if these derivatives had been settled as of the reporting date.

NOTE 5. PLEDGED ASSETS

Assets Pledged to Counterparties

The table below summarizes the Company's assets pledged as collateral under repurchase agreements and derivative agreements by type, including securities pledged related to securities sold but not yet settled, as of June 30, 2022 and December 31, 2021.

(in thousands)

	June 30, 2022			December 31, 2021		
Assets Pledged to Counterparties	**Repurchase Agreements**	**Derivative Agreements**	**Total**	**Repurchase Agreements**	**Derivative Agreements**	**Total**
PT RMBS - fair value	$ 3,752,295	$ -	$ 3,752,295	$ 6,294,102	$ -	$ 6,294,102
Structured RMBS - fair value	173,870	-	173,870	212,270	-	212,270
U.S. Treasury Notes	-	36,302	36,302	-	29,740	29,740
Accrued interest on pledged securities	13,232	15	13,247	18,804	13	18,817
Restricted cash	51,130	13,266	64,396	57,264	8,035	65,299
Total	$ 3,990,527	$ 49,583	$ 4,040,110	$ 6,582,440	$ 37,788	$ 6,620,228

Assets Pledged from Counterparties

The table below summarizes assets pledged to the Company from counterparties under repurchase agreements and derivative agreements as of June 30, 2022 and December 31, 2021.

(in thousands)

	June 30, 2022			December 31, 2021		
Assets Pledged to Orchid	**Repurchase Agreements**	**Derivative Agreements**	**Total**	**Repurchase Agreements**	**Derivative Agreements**	**Total**
Cash	$ 7,670	$ 45,021	$ 52,691	$ 4,339	$ 7,206	$ 11,545
Total	$ 7,670	$ 45,021	$ 52,691 $	$ 4,339	$ 7,206	$ 11,545

Cash received as margin is recognized as cash and cash equivalents with a corresponding amount recognized as an increase in repurchase agreements or other liabilities in the balance sheets.

NOTE 6. OFFSETTING ASSETS AND LIABILITIES

The Company's derivative agreements and repurchase agreements and reverse repurchase agreements are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its assets and liabilities subject to these arrangements on a gross basis.

The following table presents information regarding those assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of June 30, 2022 and December 31, 2021.

(in thousands)

Offsetting of Assets

	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheet	Net Amount of Assets Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet: Financial Instruments Received as Collateral	Gross Amount Not Offset in the Balance Sheet: Cash Received as Collateral	Net Amount
June 30, 2022						
Interest rate swaps	$ 104,138	$ -	$ 104,138	$ -	$ -	$ 104,138
Interest rate swaptions	88,852	-	88,852	-	(43,249)	45,603
Interest rate caps	3,387	-	3,387	-	-	3,387
TBA securities	1,657	-	1,657	-	(1,772)	(115)
	$ 198,034	$ -	$ 198,034	$ -	$ (45,021)	$ 153,013
December 31, 2021						
Interest rate swaps	$ 29,293	$ -	$ 29,293	$ -	$ -	$ 29,293
Interest rate swaptions	21,493	-	21,493	-	(6,350)	15,143
	$ 50,786	$ -	$ 50,786	$ -	$ (6,350)	$ 44,436

(in thousands)

Offsetting of Liabilities

	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet: Financial Instruments Posted as Collateral	Gross Amount Not Offset in the Balance Sheet: Cash Posted as Collateral	Net Amount
June 30, 2022						
Repurchase Agreements	$ 3,758,980	$ -	$ 3,758,980	$ (3,707,850)	$ (51,130)	$ -
Interest rate swaptions	43,296	-	43,296	-	-	43,296
TBA securities	1,772	-	1,772	-	(471)	1,301
	$ 3,804,048	$ -	$ 3,804,048	$ (3,707,850)	$ (51,601)	$ 44,597
December 31, 2021						
Repurchase Agreements	$ 6,244,106	$ -	$ 6,244,106	$ (6,186,842)	$ (57,264)	$ -
Interest rate swaps	2,862	-	2,862	(2,862)	-	-
Interest rate swaptions	4,423	-	4,423	-	-	4,423
TBA securities	304	-	304	-	-	304
	$ 6,251,695	$ -	$ 6,251,695	$ (6,189,704)	$ (57,264)	$ 4,727

The amounts disclosed for collateral received by or posted to the same counterparty up to and not exceeding the net amount of the asset or liability presented in the balance sheets. The fair value of the actual collateral received by or posted to the same counterparty typically exceeds the amounts presented. See Note 5 for a discussion of collateral posted or received against or for repurchase obligations and derivative and other hedging instruments.

NOTE 7. CAPITAL STOCK

Common Stock Issuances

The Company did not complete any public offerings of its common stock during the six months ended June 30, 2022. During the year ended December 31, 2021, the Company completed the following public offerings of shares of its common stock.

($ in thousands, except per share amounts)

Type of Offering	Period	Weighted Average Price Received Per Share(1)	Shares	Net Proceeds(2)
At the Market Offering Program(3)	First Quarter	$ 5.10	308,048	$ 1,572
Follow-on Offerings	First Quarter	5.31	17,940,000	95,336
At the Market Offering Program(3)	Second Quarter	5.40	23,087,089	124,746
At the Market Offering Program(3)	Third Quarter	4.94	35,818,338	177,007
At the Market Offering Program(3)	Fourth Quarter	4.87	23,674,698	115,398
			100,828,173	$ 514,059

(1) Weighted average price received per share is after deducting the underwriters' discount, if applicable, and other offering costs.

(2) Net proceeds are net of the underwriters' discount, if applicable, and other offering costs.

(3) The Company has entered into ten equity distribution agreements, nine of which have either been terminated because all shares were sold or were replaced with a subsequent agreement.

Stock Repurchase Program

On July 29, 2015, the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock. On February 8, 2018, the Board of Directors approved an increase in the stock repurchase program for up to an additional 4,522,822 shares of the Company's common stock. Coupled with the 783,757 shares remaining from the original 2,000,000 share authorization, the increased authorization brought the total authorization to 5,306,579 shares, representing 10% of the Company's then outstanding share count.

On December 9, 2021, the Board of Directors approved an increase in the number of shares of the Company's common stock available in the stock repurchase program for up to an additional 16,861,994 shares, bringing the remaining authorization under the stock repurchase program to 17,699,305 shares, representing approximately 10% of the Company's then outstanding shares of common stock.

As part of the stock repurchase program, shares may be purchased in open market transactions, block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The authorization does not obligate the Company to acquire any particular amount of common stock and the program may be suspended or discontinued at the Company's discretion without prior notice.

From the inception of the stock repurchase program through June 30, 2022, the Company repurchased a total of 6,561,810 shares at an aggregate cost of approximately $42.6 million, including commissions and fees, for a weighted average price of $6.49 per share. During the six months ended June 30, 2022, the Company repurchased a total of 876,299 shares at an aggregate cost of approximately $2.2 million, including commissions and fees, for a weighted average price of $2.53 per share. No shares were repurchased during the year ended December 31, 2021. The remaining authorization under the stock repurchase program as of June 30, 2022 was 16,823,006 shares.

Cash Dividends

The table below presents the cash dividends declared on the Company's common stock.

(in thousands, except per share amounts)

Year	Per Share Amount	Total
2013	$ 1.395	$ 4,662
2014	2.160	22,643
2015	1.920	38,748
2016	1.680	41,388
2017	1.680	70,717
2018	1.070	55,814
2019	0.960	54,421
2020	0.790	53,570
2021	0.780	97,601
2022 - YTD(1)	0.335	59,383
Totals	$ 12.770	$ 498,947

(1) On July 13, 2022, the Company declared a dividend of $0.045 per share to be paid on August 29, 2022. The effect of this dividend is included in the table above but is not reflected in the Company's financial statements as of June 30, 2022.

NOTE 8. STOCK INCENTIVE PLAN

In 2021, the Company's Board of Directors adopted, and the stockholders approved, the Orchid Island Capital, Inc. 2021 Equity Incentive Plan (the "2021 Incentive Plan") to replace the Orchid Island Capital, Inc. 2012 Equity Incentive Plan (the "2012 Incentive Plan" and together with the 2021 Incentive Plan, the "Incentive Plans"). The 2021 Incentive Plan provides for the award of stock options, stock appreciation rights, stock award, performance units, other equity-based awards (and dividend equivalents with respect to awards of performance units and other equity-based awards) and incentive awards. The 2021 Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors except that the Company's full Board of Directors will administer awards made to directors who are not employees of the Company or its affiliates. The 2021 Incentive Plan provides for awards of up to an aggregate of 10% of the issued and outstanding shares of the Company's common stock (on a fully diluted basis) at the time of the awards, subject to a maximum aggregate 7,366,623 shares of the Company's common stock that may be issued under the 2021 Incentive Plan. The 2021 Incentive Plan replaces the 2012 Incentive Plan, and no further grants will be made under the 2012 Incentive Plan. However, any outstanding awards under the 2012 Incentive Plan will continue in accordance with the terms of the 2012 Incentive Plan and any award agreement executed in connection with such outstanding awards.

Performance Units

The Company has issued, and may in the future issue additional, performance units under the Incentive Plans to certain executive officers and employees of its Manager. "Performance Units" vest after the end of a defined performance period, based on satisfaction of the performance conditions set forth in the performance unit agreement. When earned, each Performance Unit will be settled by the issuance of one share of the Company's common stock, at which time the Performance Unit will be cancelled. The Performance Units contain dividend equivalent rights, which entitle the Participants to receive distributions declared by the Company on common stock, but do not include the right to vote the underlying shares of common stock. Performance Units are subject to forfeiture should the participant no longer serve as an executive officer or employee of the Company or the Manager. Compensation expense for the Performance Units, included in incentive compensation on the statements of operations, is recognized over the remaining vesting period once it becomes probable that the performance conditions will be achieved.

The following table presents information related to Performance Units outstanding during the six months ended June 30, 2022 and 2021.

($ in thousands, except per share data)

	Six Months Ended June 30,			
	2022		2021	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	133,223	$ 5.88	4,554	$ 7.45
Granted	175,572	3.31	137,897	5.88
Vested and issued	(26,645)	5.88	(4,554)	7.45
Unvested, end of period	282,150	$ 4.28	137,897	$ 5.88
Compensation expense during period		$ 270		$ 113
Unrecognized compensation expense, end of period		$ 778		$ 702
Intrinsic value, end of period		$ 804		$ 716
Weighted-average remaining vesting term (in years)		1.6		1.9

Stock Awards

The Company has issued, and may in the future issue additional, immediately vested common stock under the Incentive Plans to certain executive officers and employees of its Manager. The following table presents information related to fully vested common stock issued during the six months ended June 30, 2022 and 2021. All of the fully vested shares of common stock issued during the six months ended June 30, 2022 and 2021, and the related compensation expense, were granted with respect to service performed during the fiscal years ended December 31, 2021 and 2020, respectively.

($ in thousands, except per share data)

	Six Months Ended June 30,	
	2022	2021
Fully vested shares granted	175,572	137,897
Weighted average grant date price per share	$ 3.31	$ 5.88
Compensation expense related to fully vested shares of common stock awards	$ 581	$ 811

Deferred Stock Units

Non-employee directors receive a portion of their compensation in the form of deferred stock unit awards ("DSUs") pursuant to the Incentive Plans. Each DSU represents a right to receive one share of the Company's common stock. Beginning in 2022, each non-employee director can elect to receive all of his or her compensation in the form of DSUs. The DSUs are immediately vested and are settled at a future date based on the election of the individual participant. Compensation expense for the DSUs is included in directors' fees and liability insurance in the statements of operations. The DSUs contain dividend equivalent rights, which entitle the participant to receive distributions declared by the Company on common stock. These dividend equivalent rights are settled in cash or additional DSUs at the participant's election. The DSUs do not include the right to vote the underlying shares of common stock.

The following table presents information related to the DSUs outstanding during the six months ended June 30, 2022 and 2021.

($ in thousands, except per share data)

	Six Months Ended June 30,					
	2022			2021		
	Shares		Weighted Average Grant Date Fair Value	Shares		Weighted Average Grant Date Fair Value
Outstanding, beginning of period	142,976	$	5.38	90,946	$	5.44
Granted and vested	40,881		3.66	22,528		5.64
Outstanding, end of period	183,857	$	5.00	113,474	$	5.48
Compensation expense during period		$	153		$	120
Intrinsic value, end of period		$	524		$	589

NOTE 9. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any reported or unreported contingencies at June 30, 2022.

NOTE 10. INCOME TAXES

The Company will generally not be subject to U.S. federal income tax on its REIT taxable income to the extent that it distributes its REIT taxable income to its stockholders and satisfies the ongoing REIT requirements, including meeting certain asset, income and stock ownership tests. A REIT must generally distribute at least 90% of its REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gain, to its stockholders, annually to maintain REIT status. An amount equal to the sum of which 85% of its REIT ordinary income and 95% of its REIT capital gain net income, plus certain undistributed income from prior taxable years, must be distributed within the taxable year, in order to avoid the imposition of an excise tax. The remaining balance may be distributed up to the end of the following taxable year, provided the REIT elects to treat such amount as a prior year distribution and meets certain other requirements.

NOTE 11. EARNINGS PER SHARE (EPS)

The Company had dividend eligible Performance Units and Deferred Stock Units that were outstanding during the six and three months ended June 30, 2022 and 2021. The basic and diluted per share computations include these unvested Performance Units and Deferred Stock Units if there is income available to common stock, as they have dividend participation rights. The unvested Performance Units and Deferred Stock Units have no contractual obligation to share in losses. Because there is no such obligation, the unvested Performance Units and Deferred Stock Units are not included in the basic and diluted EPS computations when no income is available to common stock even though they are considered participating securities.

The table below reconciles the numerator and denominator of EPS for the six and three months ended June 30, 2022 and 2021.

(in thousands, except per share information)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2022	2021	2022	2021
Basic and diluted EPS per common share:				
Numerator for basic and diluted EPS per share of common stock:				
Net loss - Basic and diluted	$ (208,866)	$ (46,234)	$ (60,139)	$ (16,865)
Weighted average shares of common stock:				
Shares of common stock outstanding at the balance sheet date	176,251	117,500	176,251	117,500
Effect of weighting	765	(25,044)	783	(18,011)
Weighted average shares-basic and diluted	177,016	92,456	177,034	99,489
Net loss per common share:				
Basic and diluted	$ (1.18)	$ (0.50)	$ (0.34)	$ (0.17)
Anti-dilutive incentive shares not included in calculation	466	251	466	251

NOTE 12. FAIR VALUE

The framework for using fair value to measure assets and liabilities defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of non-performance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These stratifications are:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),
- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and
- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

The Company's RMBS and TBA securities are Level 2 valuations, and such valuations currently are determined by the Company based on independent pricing sources and/or third party broker quotes. Because the price estimates may vary, the Company must make certain judgments and assumptions about the appropriate price to use to calculate the fair values. The Company and the independent pricing sources use various valuation techniques to determine the price of the Company's securities. These techniques include observing the most recent market for like or identical assets (including security coupon, maturity, yield, and prepayment speeds), spread pricing techniques to determine market credit spreads (option adjusted spread, zero volatility spread, spread to the U.S. Treasury curve or spread to a benchmark such as a TBA), and model driven approaches (the discounted cash flow method, Black Scholes and SABR models which rely upon observable market rates such as the term structure of interest rates and volatility). The appropriate spread pricing method used is based on market convention. The pricing source determines the spread of recently observed trade activity or observable markets for assets similar to those being priced. The spread is then adjusted based on variances in certain characteristics between the market observation and the asset being priced. Those characteristics include: type of asset, the expected life of the asset, the stability and predictability of the expected future cash flows of the asset, whether the coupon of the asset is fixed or adjustable, the guarantor of the security if applicable, the coupon, the maturity, the issuer, size of the underlying loans, year in which the underlying loans were originated, loan to value ratio, state in which the underlying loans reside, credit score of the underlying borrowers and other variables if appropriate. The fair value of the security is determined by using the adjusted spread.

The Company's U.S. Treasury Notes are based on quoted prices for identical instruments in active markets and are classified as Level 1 assets.

The Company's futures contracts are Level 1 valuations, as they are exchange-traded instruments and quoted market prices are readily available. Futures contracts are settled daily. The Company's interest rate swaps and interest rate swaptions are Level 2 valuations. The fair value of interest rate swaps is determined using a discounted cash flow approach using forward market interest rates and discount rates, which are observable inputs. The fair value of interest rate swaptions is determined using an option pricing model.

RMBS (based on the fair value option), derivatives and TBA securities were recorded at fair value on a recurring basis during the six and three months ended June 30, 2022 and 2021. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets.

The following table presents financial assets (liabilities) measured at fair value on a recurring basis as of June 30, 2022 and December 31, 2021. Derivative contracts are reported as a net position by contract type, and not based on master netting arrangements.

(in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2022			
Mortgage-backed securities	$ -	$ 3,940,860	$ -
U.S. Treasury Notes	36,302	-	-
Interest rate swaps	-	104,137	-
Interest rate swaptions	-	45,556	-
Interest rate caps	-	3,837	-
TBA securities	-	1,362	-
December 31, 2021			
Mortgage-backed securities	$ -	$ 6,511,095	$ -
U.S. Treasury Notes	37,175	-	-
Interest rate swaps	-	26,431	-
Interest rate swaptions	-	17,070	-
TBA securities	-	(304)	-

During the six and three months ended June 30, 2022 and 2021, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

NOTE 13. RELATED PARTY TRANSACTIONS

Management Agreement

The Company is externally managed and advised by Bimini Advisors, LLC (the "Manager") pursuant to the terms of a management agreement. The management agreement has been renewed through February 20, 2023 and provides for automatic one-year extension options thereafter and is subject to certain termination rights. Under the terms of the management agreement, the Manager is responsible for administering the business activities and day-to-day operations of the Company. The Manager receives a monthly management fee in the amount of:

- One-twelfth of 1.5% of the first $250 million of the Company's month-end equity, as defined in the management agreement,
- One-twelfth of 1.25% of the Company's month-end equity that is greater than $250 million and less than or equal to $500 million, and
- One-twelfth of 1.00% of the Company's month-end equity that is greater than $500 million.

On April 1, 2022, pursuant to the third amendment to the management agreement entered into on November 16, 2021, the Manager began providing certain repurchase agreement trading, clearing and administrative services to the Company that had been previously provided by AVM, L.P. under an agreement terminated on March 31, 2022. In consideration for such services, the Company will pay the following fees to the Manager:

- A daily fee equal to the outstanding principal balance of repurchase agreement funding in place as of the end of such day multiplied by 1.5 basis points for the amount of aggregate outstanding principal balance less than or equal to $5 billion, and multiplied by 1.0 basis point for any amount of aggregate outstanding principal balance in excess of $5 billion, and
- A fee for the clearing and operational services provided by personnel of the Manager equal to $10,000 per month.

The Company is obligated to reimburse the Manager for any direct expenses incurred on its behalf and to pay the Manager the Company's pro rata portion of certain overhead costs set forth in the management agreement. Should the Company terminate the management agreement without cause, it will pay the Manager a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the term of the agreement.

Total expenses recorded for the management fee and allocated overhead incurred were approximately $6.2 million and $3.2 million for the six and three months ended June 30, 2022, respectively, and $4.2 million and $2.2 million for the six and three months ended June 30, 2021, respectively. At June 30, 2022 and December 31, 2021, the net amount due to affiliates was approximately $1.1 million and $1.1 million, respectively.

Other Relationships with Bimini

Robert Cauley, the Company's Chief Executive Officer and Chairman of the Board of Directors, also serves as Chief Executive Officer and Chairman of the Board of Directors of Bimini and owns shares of common stock of Bimini. George H. Haas, IV, the Company's Chief Financial Officer, Chief Investment Officer, Secretary and a member of the Board of Directors, also serves as the Chief Financial Officer, Chief Investment Officer and Treasurer of Bimini and owns shares of common stock of Bimini. In addition, as of June 30, 2022, Bimini owned 2,595,357 shares, or 1.5%, of the Company's common stock.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and notes to those statements included in Item 1 of this Form 10-Q. The discussion may contain certain forward-looking statements that involve risks and uncertainties. Forward-looking statements are those that are not historical in nature. As a result of many factors, such as those set forth under "Risk Factors" in our most recent Annual Report on Form 10-K, our actual results may differ materially from those anticipated in such forward-looking statements.

Overview

We are a specialty finance company that invests in residential mortgage-backed securities ("RMBS") which are issued and guaranteed by a federally chartered corporation or agency ("Agency RMBS"). Our investment strategy focuses on, and our portfolio consists of, two categories of Agency RMBS: (i) traditional pass-through Agency RMBS, such as mortgage pass-through certificates issued by Fannie Mae, Freddie Mac or Ginnie Mae (the "GSEs") and collateralized mortgage obligations ("CMOs") issued by the GSEs ("PT RMBS") and (ii) structured Agency RMBS, such as interest-only securities ("IOs"), inverse interest-only securities ("IIOs") and principal only securities ("POs"), among other types of structured Agency RMBS. We were formed by Bimini in August 2010, commenced operations on November 24, 2010 and completed our initial public offering ("IPO") on February 20, 2013. We are externally managed by Bimini Advisors, an investment adviser registered with the Securities and Exchange Commission (the "SEC").

Our business objective is to provide attractive risk-adjusted total returns over the long term through a combination of capital appreciation and the payment of regular monthly distributions. We intend to achieve this objective by investing in and strategically allocating capital between the two categories of Agency RMBS described above. We seek to generate income from (i) the net interest margin on our leveraged PT RMBS portfolio and the leveraged portion of our structured Agency RMBS portfolio, and (ii) the interest income we generate from the unleveraged portion of our structured Agency RMBS portfolio. We intend to fund our PT RMBS and certain of our structured Agency RMBS through short-term borrowings structured as repurchase agreements. PT RMBS and structured Agency RMBS typically exhibit materially different sensitivities to movements in interest rates. Declines in the value of one portfolio may be offset by appreciation in the other. The percentage of capital that we allocate to our two Agency RMBS asset categories will vary and will be actively managed in an effort to maintain the level of income generated by the combined portfolios, the stability of that income stream and the stability of the value of the combined portfolios. We believe that this strategy will enhance our liquidity, earnings, book value stability and asset selection opportunities in various interest rate environments.

We operate so as to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). We generally will not be subject to U.S. federal income tax to the extent that we currently distribute all of our REIT taxable income (as defined in the Code) to our stockholders and maintain our REIT qualification.

The Company's common stock trades on the New York Stock Exchange under the symbol "ORC".

Capital Raising Activities

On August 4, 2020, we entered into an equity distribution agreement (the "August 2020 Equity Distribution Agreement") with four sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $150,000,000 of shares of our common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. We issued a total of 27,493,650 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $150.0 million, and net proceeds of approximately $147.4 million, after commissions and fees, prior to its termination in June 2021.

On January 20, 2021, we entered into an underwriting agreement (the “January 2021 Underwriting Agreement”) with J.P. Morgan Securities LLC (“J.P. Morgan”), relating to the offer and sale of 7,600,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the January 2021 Underwriting Agreement at $5.20 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 1,140,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on January 21, 2021. The closing of the offering of 8,740,000 shares of our common stock occurred on January 25, 2021, with proceeds to us of approximately $45.2 million, net of offering expenses.

On March 2, 2021, we entered into an underwriting agreement (the “March 2021 Underwriting Agreement”) with J.P. Morgan, relating to the offer and sale of 8,000,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the March 2021 Underwriting Agreement at $5.45 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 1,200,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on March 3, 2021. The closing of the offering of 9,200,000 shares of our common stock occurred on March 5, 2021, with proceeds to us of approximately $50.0 million, net of offering expenses.

On June 22, 2021, we entered into an equity distribution agreement (the “June 2021 Equity Distribution Agreement”) with four sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of our common stock in transactions that were deemed to be “at the market” offerings and privately negotiated transactions. We issued a total of 49,407,336 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $250.0 million, and net proceeds of approximately $246.2 million, after commissions and fees, prior to its termination in October 2021.

On October 29, 2021, we entered into an equity distribution agreement (the “October 2021 Equity Distribution Agreement”) with four sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of our common stock in transactions that are deemed to be “at the market” offerings and privately negotiated transactions. Through June 30, 2022, we issued a total of 15,835,700 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $78.3 million, and net proceeds of approximately $77.0 million, after commissions and fees.

Stock Repurchase Agreement

On July 29, 2015, the Company’s Board of Directors authorized the repurchase of up to 2,000,000 shares of our common stock. The timing, manner, price and amount of any repurchases is determined by the Company in its discretion and is subject to economic and market conditions, stock price, applicable legal requirements and other factors. The authorization does not obligate the Company to acquire any particular amount of common stock and the program may be suspended or discontinued at the Company’s discretion without prior notice. On February 8, 2018, the Board of Directors approved an increase in the stock repurchase program for up to an additional 4,522,822 shares of the Company’s common stock. Coupled with the 783,757 shares remaining from the original 2,000,000 share authorization, the increased authorization brought the total authorization to 5,306,579 shares, representing 10% of the Company’s then outstanding share count. On December 9, 2021, the Board of Directors approved an increase in the number of shares of the Company’s common stock available in the stock repurchase program for up to an additional 16,861,994 shares, bringing the remaining authorization under the stock repurchase program to 17,699,305 shares, representing approximately 10% of the Company’s then outstanding shares of common stock. This stock repurchase program has no termination date.

From the inception of the stock repurchase program through June 30, 2022, the Company repurchased a total of 6,561,810 shares at an aggregate cost of approximately $42.6 million, including commissions and fees, for a weighted average price of $6.49 per share. During the six months ended June 30, 2022, the Company repurchased a total of 876,299 shares of its common stock at an aggregate cost of approximately $2.2 million, including commissions and fees, for a weighted average price of $2.53 per share.

Factors that Affect our Results of Operations and Financial Condition

A variety of industry and economic factors may impact our results of operations and financial condition. These factors include:

- interest rate trends;
- the difference between Agency RMBS yields and our funding and hedging costs;
- competition for, and supply of, investments in Agency RMBS;
- actions taken by the U.S. government, including the presidential administration, the Federal Reserve (the "Fed"), the Federal Housing Financing Agency (the "FHFA"), Federal Housing Administration (the "FHA"), the Federal Open Market Committee (the "FOMC") and the U.S. Treasury;
- prepayment rates on mortgages underlying our Agency RMBS and credit trends insofar as they affect prepayment rates; and
- other market developments.

In addition, a variety of factors relating to our business may also impact our results of operations and financial condition. These factors include:

- our degree of leverage;
- our access to funding and borrowing capacity;
- our borrowing costs;
- our hedging activities;
- the market value of our investments
- increases in our cost of funds resulting from increases in the Fed Funds rate that are controlled by the Fed which have occurred, and are likely to continue to occur, in 2022; and
- the requirements to qualify as a REIT and the requirements to qualify for a registration exemption under the Investment Company Act.

Results of Operations

Described below are the Company's results of operations for the six and three months ended June 30, 2022, as compared to the Company's results of operations for the six and three months ended June 30, 2021.

Net (Loss) Income Summary

Net loss for the six months ended June 30, 2022 was $208.9 million, or $1.18 per share. Net loss for the six months ended June 30, 2021 was $46.2 million, or $0.50 per share. Net loss for the three months ended June 30, 2022 was $60.1 million, or $0.34 per share. Net loss for the three months ended June 30, 2021 was $16.9 million, or $0.17 per share. The components of net loss for the six and three months ended June 30, 2022 and 2021, along with the changes in those components are presented in the table below:

(in thousands)

	Six Months Ended June 30,			Three Months Ended, June 30,		
	2022	2021	Change	2022	2021	Change
Interest income	$ 77,125	$ 56,110	$ 21,015	$ 35,268	$ 29,254	$ 6,014
Interest expense	(10,835)	(3,497)	(7,338)	(8,180)	(1,556)	(6,624)
Net interest income	66,290	52,613	13,677	27,088	27,698	(610)
Losses on RMBS and derivative contracts	(265,515)	(91,635)	(173,880)	(82,283)	(40,844)	(41,439)
Net portfolio loss	(199,225)	(39,022)	(160,203)	(55,195)	(13,146)	(42,049)
Expenses	(9,641)	(7,212)	(2,429)	(4,944)	(3,719)	(1,225)
Net (loss) income	$ (208,866)	$ (46,234)	$ (162,632)	$ (60,139)	$ (16,865)	$ (43,274)

GAAP and Non-GAAP Reconciliations

In addition to the results presented in accordance with GAAP, our results of operations discussed below include certain non-GAAP financial information, including “Net Earnings Excluding Realized and Unrealized Gains and Losses”, “Economic Interest Expense” and “Economic Net Interest Income.”

Net Earnings Excluding Realized and Unrealized Gains and Losses

We have elected to account for our Agency RMBS under the fair value option. Securities held under the fair value option are recorded at estimated fair value, with changes in the fair value recorded as unrealized gains or losses through the statements of operations.

In addition, we have not designated our derivative financial instruments used for hedging purposes as hedges for accounting purposes, but rather hold them for economic hedging purposes. Changes in fair value of these instruments are presented in a separate line item in the Company’s statements of operations and are not included in interest expense. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the derivative instruments.

Presenting net earnings excluding realized and unrealized gains and losses allows management to: (i) isolate the net interest income and other expenses of the Company over time, free of all fair value adjustments and (ii) assess the effectiveness of our funding and hedging strategies on our capital allocation decisions and our asset allocation performance. Our funding and hedging strategies, capital allocation and asset selection are integral to our risk management strategy, and therefore critical to the management of our portfolio. We believe that the presentation of our net earnings excluding realized and unrealized gains is useful to investors because it provides a means of comparing our results of operations to those of our peers who have not elected the same accounting treatment. Our presentation of net earnings excluding realized and unrealized gains and losses may not be comparable to similarly-titled measures of other companies, who may use different calculations. As a result, net earnings excluding realized and unrealized gains and losses should not be considered as a substitute for our GAAP net income (loss) as a measure of our financial performance or any measure of our liquidity under GAAP. The table below presents a reconciliation of our net income (loss) determined in accordance with GAAP and net earnings excluding realized and unrealized gains and losses.

Described below are the Company’s results of operations for the six months ended June 30, 2022 and 2021, and for each quarter in 2022 to date and 2021.

Net Earnings Excluding Realized and Unrealized Gains and Losses

(in thousands, except per share data)

				Per Share		
	Net Income (GAAP)	Realized and Unrealized Gains and Losses[1]	Net Earnings Excluding Realized and Unrealized Gains and Losses	Net Income (GAAP)	Realized and Unrealized Gains and Losses	Net Earnings Excluding Realized and Unrealized Gains and Losses
Three Months Ended						
June 30, 2022	$ (60,139)	$ (82,284)	$ 22,145	$ (0.34)	$ (0.46)	0.12
March 31, 2022	(148,727)	(183,232)	34,505	(0.84)	(1.04)	0.20
December 31, 2021	(44,564)	(82,597)	38,033	(0.27)	(0.49)	0.22
September 30, 2021	26,038	(2,887)	28,925	0.20	(0.02)	0.22
June 30, 2021	(16,865)	(40,844)	23,979	(0.17)	(0.41)	0.24
March 31, 2021	(29,369)	(50,791)	21,422	(0.34)	(0.60)	0.26
Six Months Ended						
June 30, 2022	$ (208,866)	$ (265,516)	$ 56,650	$ (1.18)	$ (1.50)	$ 0.32
June 30, 2021	(46,234)	(91,635)	45,401	(0.50)	(0.99)	0.49

(1) Includes realized and unrealized gains (losses) on RMBS and derivative financial instruments, including net interest income or expense on interest rate swaps.

Economic Interest Expense and Economic Net Interest Income

We use derivative and other hedging instruments, specifically Eurodollar, Fed Funds and T-Note futures contracts, short positions in U.S. Treasury securities, interest rate swaps and swaptions, to hedge a portion of the interest rate risk on repurchase agreements in a rising rate environment.

We have not elected to designate our derivative holdings for hedge accounting treatment. Changes in fair value of these instruments are presented in a separate line item in our statements of operations and not included in interest expense. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the derivative instruments.

For the purpose of computing economic net interest income and ratios relating to cost of funds measures, GAAP interest expense has been adjusted to reflect the realized and unrealized gains or losses on certain derivative instruments the Company uses, specifically Eurodollar, Fed Funds and U.S. Treasury futures, and interest rate swaps and swaptions, that pertain to each period presented. We believe that adjusting our interest expense for the periods presented by the gains or losses on these derivative instruments would not accurately reflect our economic interest expense for these periods. The reason is that these derivative instruments may cover periods that extend into the future, not just the current period. Any realized or unrealized gains or losses on the instruments reflect the change in market value of the instrument caused by changes in underlying interest rates applicable to the term covered by the instrument, not just the current period. For each period presented, we have combined the effects of the derivative financial instruments in place for the respective period with the actual interest expense incurred on borrowings to reflect total economic interest expense for the applicable period. Interest expense, including the effect of derivative instruments for the period, is referred to as economic interest expense. Net interest income, when calculated to include the effect of derivative instruments for the period, is referred to as economic net interest income. This presentation includes gains or losses on all contracts in effect during the reporting period, covering the current period as well as periods in the future.

The Company may invest in TBAs, which are forward contracts for the purchase or sale of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS to be delivered into the contract are not known until shortly before the settlement date. We may choose, prior to settlement, to move the settlement of these securities out to a later date by entering into a dollar roll transaction. The Agency RMBS purchased or sold for a forward settlement date are typically priced at a discount to equivalent securities settling in the current month. Consequently, forward purchases of Agency RMBS and dollar roll transactions represent a form of off-balance sheet financing. These TBAs are accounted for as derivatives and marked to market through the income statement. Gains or losses on TBAs are included with gains or losses on other derivative contracts and are not included in interest income for purposes of the discussions below.

We believe that economic interest expense and economic net interest income provide meaningful information to consider, in addition to the respective amounts prepared in accordance with GAAP. The non-GAAP measures help management to evaluate its financial position and performance without the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current investment portfolio or operations. The unrealized gains or losses on derivative instruments presented in our statements of operations are not necessarily representative of the total interest rate expense that we will ultimately realize. This is because as interest rates move up or down in the future, the gains or losses we ultimately realize, and which will affect our total interest rate expense in future periods, may differ from the unrealized gains or losses recognized as of the reporting date.

Our presentation of the economic value of our hedging strategy has important limitations. First, other market participants may calculate economic interest expense and economic net interest income differently than the way we calculate them. Second, while we believe that the calculation of the economic value of our hedging strategy described above helps to present our financial position and performance, it may be of limited usefulness as an analytical tool. Therefore, the economic value of our investment strategy should not be viewed in isolation and is not a substitute for interest expense and net interest income computed in accordance with GAAP.

The tables below present a reconciliation of the adjustments to interest expense shown for each period relative to our derivative instruments, and the income statement line item, gains (losses) on derivative instruments, calculated in accordance with GAAP for each quarter of 2022 to date and 2021.

Gains (Losses) on Derivative Instruments

(in thousands)

	Recognized in Income Statement (GAAP)	U.S. Treasury and TBA Securities Gain (Loss) (Short Positions)	U.S. Treasury and TBA Securities Gain (Loss) (Long Positions)	Funding Hedges: Attributed to Current Period (Non-GAAP)	Funding Hedges: Attributed to Future Periods (Non-GAAP)
Three Months Ended					
June 30, 2022	$ 103,758	$ 1,013	$ 1,067	$ 1,996	$ 99,682
March 31, 2022	177,816	2,539	27	(1,287)	176,537
December 31, 2021	10,945	2,568	-	(7,949)	16,326
September 30, 2021	5,375	(2,306)	-	(1,248)	8,929
June 30, 2021	(34,915)	(5,963)	-	(5,104)	(23,848)
March 31, 2021	45,472	9,133	(8,559)	(4,044)	48,942
Six Months Ended					
June 30, 2022	$ 281,574	$ 3,552	$ 1,094	$ 709	$ 276,219
June 30, 2021	10,557	3,170	(8,559)	(9,148)	25,094

Economic Interest Expense and Economic Net Interest Income

(in thousands)

	Interest Income	Interest Expense on Borrowings: GAAP Interest Expense	Interest Expense on Borrowings: Gains (Losses) on Derivative Instruments Attributed to Current Period(1)	Interest Expense on Borrowings: Economic Interest Expense(2)	Net Interest Income: GAAP Net Interest Income	Net Interest Income: Economic Net Interest Income(3)
Three Months Ended						
June 30, 2022	$ 35,268	$ 8,180	$ 1,996	$ 6,184	$ 27,088	$ 29,084
March 31, 2022	41,857	2,655	(1,287)	3,942	39,202	37,915
December 31, 2021	44,421	2,023	(7,949)	9,972	42,398	34,449
September 30, 2021	34,169	1,570	(1,248)	2,818	32,599	31,351
June 30, 2021	29,254	1,556	(5,104)	6,660	27,698	22,594
March 31, 2021	26,856	1,941	(4,044)	5,985	24,915	20,871
Six Months Ended						
June 30, 2022	$ 77,125	$ 10,835	$ 709	$ 10,126	$ 66,290	$ 66,999
June 30, 2021	56,110	3,497	(9,148)	12,645	52,613	43,465

(1) Reflects the effect of derivative instrument hedges for only the period presented.
(2) Calculated by adding the effect of derivative instrument hedges attributed to the period presented to GAAP interest expense.
(3) Calculated by adding the effect of derivative instrument hedges attributed to the period presented to GAAP net interest income.

Net Interest Income

During the six months ended June 30, 2022, we generated $66.3 million of net interest income, consisting of $77.1 million of interest income from RMBS assets offset by $10.8 million of interest expense on borrowings. For the comparable period ended June 30, 2021, we generated $52.6 million of net interest income, consisting of $56.1 million of interest income from RMBS assets offset by $3.5 million of interest expense on borrowings. The $21.0 million increase in interest income was due to a $634.5 million increase in average RMBS, combined with a 52 basis point ("bps") increase in the yield on average RMBS. The $7.3 million increase in interest expense was due to a 29 bps increase in the average cost of funds, combined with a $614.4 million increase in average outstanding borrowings.

On an economic basis, our interest expense on borrowings for the six months ended June 30, 2022 and 2021 was $10.1 million and $12.6 million, respectively, resulting in $67.0 million and $43.5 million of economic net interest income, respectively.

During the three months ended June 30, 2022, we generated $27.1 million of net interest income, consisting of $35.3 million of interest income from RMBS assets offset by $8.2 million of interest expense on borrowings. For the three months ended June 30, 2021, we generated $27.7 million of net interest income, consisting of $29.3 million of interest income from RMBS assets offset by $1.6 million of interest expense on borrowings. The $6.0 million increase in interest income was due to a 71 bps increase in the yield on average RMBS, partially offset by a $244.2 million decrease in average RMBS. The $6.6 million increase in interest expense was due to a 66 bps increase in the average cost of funds, partially offset by a $236.6 million decrease in average outstanding borrowings.

On an economic basis, our interest expense on borrowings for the three months ended June 30, 2022 and 2021 was $6.2 million and $6.7 million, respectively, resulting in $29.1 million and $22.6 million of economic net interest income, respectively.

The tables below provide information on our portfolio average balances, interest income, yield on assets, average borrowings, interest expense, cost of funds, net interest income and net interest spread for the six months ended June 30, 2022 and 2021 and each quarter of 2022 to date and 2021 on both a GAAP and economic basis.

($ in thousands)

	Average RMBS Held(1)	Interest Income	Yield on Average RMBS	Average Borrowings(1)	Interest Expense GAAP Basis	Interest Expense Economic Basis(2)	Average Cost of Funds GAAP Basis	Average Cost of Funds Economic Basis(3)
Three Months Ended								
June 30, 2022	$ 4,260,727	$ 35,268	3.31%	$ 4,111,544	$ 8,180	$ 6,184	0.80%	0.60%
March 31, 2022	5,545,844	41,857	3.02%	5,354,107	2,655	3,942	0.20%	0.29%
December 31, 2021	6,056,259	44,421	2.93%	5,728,988	2,023	9,972	0.14%	0.70%
September 30, 2021	5,136,331	34,169	2.66%	4,864,287	1,570	2,818	0.13%	0.23%
June 30, 2021	4,504,887	29,254	2.60%	4,348,192	1,556	6,660	0.14%	0.61%
March 31, 2021	4,032,716	26,856	2.66%	3,888,633	1,941	5,985	0.20%	0.62%
Six Months Ended								
June 30, 2022	$ 4,903,286	$ 77,125	3.15%	$ 4,732,826	$ 10,835	$ 10,126	0.46%	0.43%
June 30, 2021	4,268,801	56,110	2.63%	4,118,413	3,497	12,645	0.17%	0.61%

($ in thousands)

	Net Interest Income GAAP Basis	Net Interest Income Economic Basis(2)	Net Interest Spread GAAP Basis	Net Interest Spread Economic Basis(4)
Three Months Ended				
June 30, 2022	$ 27,088	$ 29,084	2.51%	2.71%
March 31, 2022	39,202	37,915	2.82%	2.73%
December 31, 2021	42,398	34,449	2.79%	2.23%
September 30, 2021	32,599	31,351	2.53%	2.43%
June 30, 2021	27,698	22,594	2.46%	1.99%
March 31, 2021	24,915	20,871	2.46%	2.04%
Six Months Ended				
June 30, 2022	$ 66,290	$ 66,999	2.69%	2.72%
June 30, 2021	52,613	43,465	2.46%	2.02%

(1) Portfolio yields and costs of borrowings presented in the tables above and the tables on pages 34 and 35 are calculated based on the average balances of the underlying investment portfolio/borrowings balances and are annualized for the periods presented. Average balances for quarterly periods are calculated using two data points, the beginning and ending balances.
(2) Economic interest expense and economic net interest income presented in the table above and the tables on page 35 includes the effect of our derivative instrument hedges for only the periods presented.
(3) Represents interest cost of our borrowings and the effect of derivative instrument hedges attributed to the period divided by average RMBS.
(4) Economic net interest spread is calculated by subtracting average economic cost of funds from realized yield on average RMBS.

Interest Income and Average Asset Yield

Our interest income for the six months ended June 30, 2022 and 2021 was $77.1 million and $56.1 million, respectively. We had average RMBS holdings of $4,903.3 million and $4,268.8 million for the six months ended June 30, 2022 and 2021, respectively. The yield on our portfolio was 3.15% and 2.63% for the six months ended June 30, 2022 and 2021, respectively. For the six months ended June 30, 2022 as compared to the six months ended June 30, 2021, there was a $21.0 million increase in interest income due to the $634.5 million increase in average RMBS, combined with the 52 bps increase in the yield on average RMBS.

Our interest income for the three months ended June 30, 2022 and 2021 was $35.3 million and $29.3 million, respectively. We had average RMBS holdings of $4,260.7 million and $4,504.9 million for the three months ended June 30, 2022 and 2021, respectively. The yield on our portfolio was 3.31% and 2.60% for the three months ended June 30, 2022 and 2021, respectively. For the three months ended June 30, 2022 as compared to the three months ended June 30, 2021, there was a $6.0 million increase in interest income due to the $244.2 million decrease in average RMBS, combined with the 71 bps increase in the yield on average RMBS.

The table below presents the average portfolio size, income and yields of our respective sub-portfolios, consisting of structured RMBS and PT RMBS, for the six months ended June 30, 2022 and 2021, and for each quarter of 2022 to date and 2021.

($ in thousands)

	Average RMBS Held			Interest Income			Realized Yield on Average RMBS		
	PT RMBS	Structured RMBS	Total	PT RMBS	Structured RMBS	Total	PT RMBS	Structured RMBS	Total
Three Months Ended									
June 30, 2022	$ 4,069,334	$ 191,393	$ 4,260,727	$ 31,894	$ 3,374	$ 35,268	3.14%	7.05%	3.31%
March 31, 2022	5,335,353	210,491	5,545,844	40,066	1,791	41,857	3.00%	3.40%	3.02%
December 31, 2021	5,878,376	177,883	6,056,259	42,673	1,748	44,421	2.90%	3.93%	2.93%
September 30, 2021	5,016,550	119,781	5,136,331	33,111	1,058	34,169	2.64%	3.53%	2.66%
June 30, 2021	4,436,135	68,752	4,504,887	29,286	(32)	29,254	2.64%	(0.18)%	2.60%
March 31, 2021	3,997,965	34,751	4,032,716	26,869	(13)	26,856	2.69%	(0.15)%	2.66%
Six Months Ended									
June 30, 2022	$ 4,702,343	$ 200,943	$ 4,903,286	$ 71,960	$ 5,165	$ 77,125	3.06%	5.14%	3.15%
June 30, 2021	4,217,050	51,751	4,268,801	56,155	(45)	56,110	2.66%	(0.17)%	2.63%

Interest Expense and the Cost of Funds

We had average outstanding borrowings of $4,732.8 million and $4,118.4 million and total interest expense of $10.8 million and $3.5 million for the six months ended June 30, 2022 and 2021, respectively. Our average cost of funds was 0.46% for the six months ended June 30, 2022, compared to 0.17% for the comparable period in 2021. The $7.3 million increase in interest expense was due to the 29 bps increase in the average cost of funds, combined with the $614.4 million increase in average outstanding borrowings during the six months ended June 30, 2022 as compared to the six months ended June 30, 2021.

Our economic interest expense was $10.1 million and $12.6 million for the six months ended June 30, 2022 and 2021, respectively. There was a 18 bps decrease in the average economic cost of funds to 0.43% for the six months ended June 30, 2022 from 0.61% for the six months ended June 30, 2021.

We had average outstanding borrowings of $4,111.5 million and $4,348.2 million and total interest expense of $8.2 million and $1.6 million for the three months ended June 30, 2022 and 2021, respectively. Our average cost of funds was 0.80% and 0.14% for three months ended June 30, 2022 and 2021, respectively. There was a 66 bps increase in the average cost of funds and a $236.6 million decrease in average outstanding borrowings during the three months ended June 30, 2022, compared to the three months ended June 30, 2021.

Our economic interest expense was $6.2 million and $6.7 million for the three months ended June 30, 2022 and 2021, respectively. There was a 1 bps decrease in the average economic cost of funds to 0.60% for the three months ended June 30, 2022 from 0.61% for the three months ended June 30, 2021.

Since all of our repurchase agreements are short-term, changes in market rates directly affect our interest expense. Our average cost of funds calculated on a GAAP basis was 13 bps below the average one-month LIBOR and 110 bps below the average six-month LIBOR for the quarter ended June 30, 2022. Our average economic cost of funds was 33 bps below the average one-month LIBOR and 130 bps below the average six-month LIBOR for the quarter ended June 30, 2022. The average term to maturity of the outstanding repurchase agreements was 27 days at both June 30, 2022 and December 31, 2021.

The tables below present the average balance of borrowings outstanding, interest expense and average cost of funds, and average one-month and six-month LIBOR rates for the six months ended June 30, 2022 and 2021, and for each quarter in 2022 to date and 2021 on both a GAAP and economic basis.

($ in thousands)

	Average Balance of Borrowings	Interest Expense GAAP Basis	Interest Expense Economic Basis	Average Cost of Funds GAAP Basis	Average Cost of Funds Economic Basis
Three Months Ended					
June 30, 2022	$ 4,111,544	$ 8,180	$ 6,184	0.80%	0.60%
March 31, 2022	5,354,107	2,655	3,942	0.20%	0.29%
December 31, 2021	5,728,988	2,023	9,972	0.14%	0.70%
September 30, 2021	4,864,287	1,570	2,818	0.13%	0.23%
June 30, 2021	4,348,192	1,556	6,660	0.14%	0.61%
March 31, 2021	3,888,633	1,941	5,985	0.20%	0.62%
Six Months Ended					
June 30, 2022	$ 4,732,826	$ 10,835	$ 10,126	0.46%	0.43%
June 30, 2021	4,118,413	3,497	12,645	0.17%	0.61%

	Average LIBOR One-Month	Average LIBOR Six-Month	Average GAAP Cost of Funds Relative to Average One-Month LIBOR	Average GAAP Cost of Funds Relative to Average Six-Month LIBOR	Average Economic Cost of Funds Relative to Average One-Month LIBOR	Average Economic Cost of Funds Relative to Average Six-Month LIBOR
Three Months Ended						
June 30, 2022	0.93%	1.90%	(0.13)%	(1.10)%	(0.33)%	(1.30)%
March 31, 2022	0.25%	0.76%	(0.05)%	(0.56)%	0.04%	(0.47)%
December 31, 2021	0.09%	0.23%	0.05%	(0.09)%	0.61%	0.47%
September 30, 2021	0.09%	0.16%	0.04%	(0.03)%	0.14%	0.07%
June 30, 2021	0.10%	0.18%	0.04%	(0.04)%	0.51%	0.43%
March 31, 2021	0.13%	0.23%	0.07%	(0.03)%	0.49%	0.39%
Six Months Ended						
June 30, 2022	0.59%	1.33%	(0.13)%	(0.87)%	(0.16)%	(0.90)%
June 30, 2021	0.11%	0.20%	0.06%	(0.03)%	0.50%	0.41%

Gains or Losses

The table below presents our gains or losses for the six and three months ended June 30, 2022 and 2021.

(in thousands)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Six Months Change	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Three Months Change
Realized (losses) gains on sales of RMBS	$ (66,529)	$ (6,045)	$ (60,484)	$ (15,443)	$ 1,352	$ (16,795)
Unrealized losses on RMBS	(480,560)	(96,147)	(384,413)	(170,598)	(7,282)	(163,316)
Total losses on RMBS	(547,089)	(102,192)	(444,897)	(186,041)	(5,930)	(180,111)
Gains (losses) on interest rate futures	122,968	278	122,690	43,073	(2,210)	45,283
Gains (losses) on interest rate swaps	106,103	9,446	96,657	39,819	(17,677)	57,496
(Losses) gains on payer swaptions (short positions)	(44,944)	1,212	(46,156)	(34,036)	27,379	(61,415)
Gains (losses) on payer swaptions (long positions)	91,314	3,710	87,604	50,339	(36,360)	86,699
Gains on interest rate caps	1,487	-	1,487	2,483	-	2,483
Gains (losses) on interest rate floors	-	1,300	(1,300)	-	(84)	84
Gains (losses) on TBA securities (short positions)	3,552	3,170	382	1,013	(5,963)	6,976
Gains (losses) on TBA securities (long positions)	1,094	(8,559)	9,653	1,067	-	1,067
Total gains (losses) from derivative instruments	281,574	10,557	271,017	103,758	(34,915)	138,673

We invest in RMBS with the intent to earn net income from the realized yield on those assets over their related funding and hedging costs, and not for the purpose of making short term gains from sales. However, we have sold, and may continue to sell, existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns in light of current or anticipated interest rates, federal government programs or general economic conditions or to manage our balance sheet as part of our asset/liability management strategy. During the six months ended June 30, 2022 and 2021, we received proceeds of $1,934.6 million and $1,680.9 million, respectively, from the sales of RMBS. During the three months ended June 30, 2022 and 2021, we received proceeds of $521.6 million and $692.4 million, respectively, from the sales of RMBS.

Realized and unrealized gains and losses on RMBS are driven in part by changes in yields and interest rates, which affect the pricing of the securities in our portfolio. The unrealized gains and losses on RMBS may also include the premium lost as a result of prepayments on the underlying mortgages, decreasing unrealized gains or increasing unrealized losses as speeds or premiums increase. To the extent RMBS are carried at a discount to par, unrealized gains or losses on RMBS would also include discount accreted as a result of prepayments on the underlying mortgages, increasing unrealized gains or decreasing unrealized losses as speeds on discounts increase. Gains and losses on interest rate futures contracts are affected by changes in implied forward rates during the reporting period. The table below presents historical interest rate data for each quarter end during 2022 to date and 2021.

	5 Year U.S. Treasury Rate(1)	10 Year U.S. Treasury Rate(1)	15 Year Fixed-Rate Mortgage Rate(2)	30 Year Fixed-Rate Mortgage Rate(2)	Three Month LIBOR(3)
June 30, 2022	3.00%	2.97%	4.65%	5.52%	1.97%
March 31, 2022	2.42%	2.33%	3.39%	4.17%	0.84%
December 31, 2021	1.26%	1.51%	2.35%	3.10%	0.21%
September 30, 2021	1.00%	1.53%	2.18%	2.90%	0.12%
June 30, 2021	0.87%	1.44%	2.27%	2.98%	0.13%
March 31, 2021	0.94%	1.75%	2.39%	3.08%	0.19%

(1) Historical 5 and 10 Year U.S. Treasury Rates are obtained from quoted end of day prices on the Chicago Board Options Exchange.
(2) Historical 30 Year and 15 Year Fixed Rate Mortgage Rates are obtained from Freddie Mac's Primary Mortgage Market Survey.
(3) Historical LIBOR is obtained from the Intercontinental Exchange Benchmark Administration Ltd.

Expenses

For the six and three months ended June 30, 2022, the Company's total operating expenses were approximately $9.6 million and $4.9 million, respectively, compared to approximately $7.2 million and $3.7 million, respectively, for the six and three months ended June 30, 2021. The table below presents a breakdown of operating expenses for the six and three months ended June 30, 2022 and 2021.

(in thousands)

	Six Months Ended June 30,			Three Months Ended June 30,		
	2022	2021	Change	2022	2021	Change
Management fees	$ 5,265	$ 3,413	$ 1,852	$ 2,631	$ 1,792	$ 839
Overhead allocation	960	799	161	519	395	124
Accrued incentive compensation	551	625	(74)	314	261	53
Directors fees and liability insurance	621	595	26	310	323	(13)
Audit, legal and other professional fees	606	620	(14)	302	302	-
Direct REIT operating expenses	1,217	715	502	574	294	280
Other administrative	421	445	(24)	294	352	(58)
Total expenses	$ 9,641	$ 7,212	$ 2,429	$ 4,944	$ 3,719	$ 1,225

We are externally managed and advised by Bimini Advisors, LLC (the "Manager") pursuant to the terms of a management agreement. The management agreement has been renewed through February 20, 2023 and provides for automatic one-year extension options thereafter and is subject to certain termination rights. Under the terms of the management agreement, the Manager is responsible for administering the business activities and day-to-day operations of the Company. The Manager receives a monthly management fee in the amount of:

- One-twelfth of 1.5% of the first $250 million of the Company's month end equity, as defined in the management agreement,
- One-twelfth of 1.25% of the Company's month end equity that is greater than $250 million and less than or equal to $500 million, and
- One-twelfth of 1.00% of the Company's month end equity that is greater than $500 million.

Should the Company terminate the management agreement without cause, it will pay the Manager a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the term of the agreement.

The Company is obligated to reimburse the Manager for any direct expenses incurred on its behalf and to pay the Manager the Company's pro rata portion of certain overhead costs set forth in the management agreement.

On April 1, 2022, pursuant to the third amendment to the management agreement entered into on November 16, 2021, the Manager began providing certain repurchase agreement trading, clearing and administrative services to the Company that had been previously provided by AVM, L.P. under an agreement terminated on March 31, 2022. In consideration for such services, the Company will pay the following fees to the Manager:

- A daily fee equal to the outstanding principal balance of repurchase agreement funding in place as of the end of such day multiplied by 1.5 basis points for the amount of aggregate outstanding principal balance less than or equal to $5 billion, and multiplied by 1.0 basis point for any amount of aggregate outstanding principal balance in excess of $5 billion, and
- A fee for the clearing and operational services provided by personnel of the Manager equal to $10,000 per month.

The following table summarizes the management fee and overhead allocation expenses for the six months ended June 30, 2022 and 2021, and for each quarter in 2022 to date and 2021.

($ in thousands)

	Average Orchid	Average Orchid	Advisory Services		
Three Months Ended	**MBS**	**Equity**	**Management Fee**	**Overhead Allocation**	**Total**
June 30, 2022	$ 4,260,727	$ 866,539	$ 2,631	$ 519	$ 3,150
March 31, 2022	5,545,844	853,576	2,634	441	3,075
December 31, 2021	6,056,259	806,382	2,587	443	3,030
September 30, 2021	5,136,331	672,384	2,156	390	2,546
June 30, 2021	4,504,887	542,679	1,792	395	2,187
March 31, 2021	4,032,716	456,687	1,621	404	2,025
Six Months Ended					
June 30, 2022	$ 4,903,286	$ 860,058	$ 5,265	$ 960	$ 6,225
June 30, 2021	4,268,801	499,683	3,413	799	4,212

Financial Condition:

Mortgage-Backed Securities

As of June 30, 2022, our RMBS portfolio consisted of $3,940.9 million of Agency RMBS at fair value and had a weighted average coupon on assets of 3.16%. During the six months ended June 30, 2022, we received principal repayments of $279.5 million compared to $259.4 million for the six months ended June 30, 2021. The average three month prepayment speeds for the quarters ended June 30, 2022 and 2021 were 9.4% and 12.9%, respectively.

The following table presents the 3-month constant prepayment rate ("CPR") experienced on our structured and PT RMBS sub-portfolios, on an annualized basis, for the quarterly periods presented. CPR is a method of expressing the prepayment rate for a mortgage pool that assumes that a constant fraction of the remaining principal is prepaid each month or year. Specifically, the CPR in the chart below represents the three month prepayment rate of the securities in the respective asset category.

Three Months Ended	PT RMBS Portfolio (%)	Structured RMBS Portfolio (%)	Total Portfolio (%)
June 30, 2022	8.3	13.7	9.4
March 31, 2022	8.1	19.5	10.7
December 31, 2021	9.0	24.6	11.4
September 30, 2021	9.8	25.1	12.4
June 30, 2021	10.9	29.9	12.9
March 31, 2021	9.9	40.3	12.0

The following tables summarize certain characteristics of the Company's PT RMBS and structured RMBS as of June 30, 2022 and December 31, 2021:

($ in thousands)

Asset Category	Fair Value	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity
June 30, 2022					
Fixed Rate RMBS	$ 3,766,151	95.6%	3.10%	342	1-Jun-52
Interest-Only Securities	173,754	4.4%	3.41%	249	25-Jan-52
Inverse Interest-Only Securities	955	0.0%	3.02%	293	15-Jun-42
Total Mortgage Assets	$ 3,940,860	100.0%	3.16%	322	1-Jun-52
December 31, 2021					
Fixed Rate RMBS	$ 6,298,189	96.7%	2.93%	342	1-Dec-51
Interest-Only Securities	210,382	3.2%	3.40%	263	25-Jan-52
Inverse Interest-Only Securities	2,524	0.1%	3.75%	300	15-Jun-42
Total Mortgage Assets	$ 6,511,095	100.0%	3.03%	325	25-Jan-52

($ in thousands)

	June 30, 2022		December 31, 2021	
Agency	**Fair Value**	**Percentage of Entire Portfolio**	**Fair Value**	**Percentage of Entire Portfolio**
Fannie Mae	$ 2,591,682	65.8%	$ 4,719,349	72.5%
Freddie Mac	1,349,178	34.2%	1,791,746	27.5%
Total Portfolio	$ 3,940,860	100.0%	$ 6,511,095	100.0%

	June 30, 2022	December 31, 2021
Weighted Average Pass-through Purchase Price	$ 107.77	$ 107.19
Weighted Average Structured Purchase Price	$ 15.35	$ 15.21
Weighted Average Pass-through Current Price	$ 94.61	$ 105.31
Weighted Average Structured Current Price	$ 16.21	$ 14.08
Effective Duration (1)	5.900	3.390

(1) Effective duration is the approximate percentage change in price for a 100 bps change in rates. An effective duration of 5.900 indicates that an interest rate increase of 1.0% would be expected to cause a 5.900% decrease in the value of the RMBS in the Company's investment portfolio at June 30, 2022. An effective duration of 3.390 indicates that an interest rate increase of 1.0% would be expected to cause a 3.390% decrease in the value of the RMBS in the Company's investment portfolio at December 31, 2021. These figures include the structured securities in the portfolio, but do not include the effect of the Company's funding cost hedges. Effective duration quotes for individual investments are obtained from The Yield Book, Inc.

The following table presents a summary of portfolio assets acquired during the three months ended June 30, 2022 and 2021, including securities purchased during the period that settled after the end of the period, if any.

($ in thousands)

	2022			2021		
	Total Cost	**Average Price**	**Weighted Average Yield**	**Total Cost**	**Average Price**	**Weighted Average Yield**
Pass-through RMBS	$ 190,638	$ 99.72	4.04%	$ 2,910,318	$ 107.05	1.54%
Structured RMBS	-	-	-	76,546	15.42	3.98%

Borrowings

As of June 30, 2022, we had established borrowing facilities in the repurchase agreement market with a number of commercial banks and other financial institutions and had borrowings in place with 22 of these counterparties. None of these lenders are affiliated with the Company. These borrowings are secured by the Company's RMBS and cash, and bear interest at prevailing market rates. We believe our established repurchase agreement borrowing facilities provide borrowing capacity in excess of our needs.

As of June 30, 2022, we had obligations outstanding under the repurchase agreements of approximately $3,759.0 million with a net weighted average borrowing cost of 1.36%. The remaining maturity of our outstanding repurchase agreement obligations ranged from 6 to 141 days, with a weighted average remaining maturity of 27 days. Securing the repurchase agreement obligations as of June 30, 2022 are RMBS with an estimated fair value, including accrued interest, of approximately $3,939.4 million and a weighted average maturity of 345 months, and cash pledged to counterparties of approximately $51.1 million. Through August 4, 2022, we have been able to maintain our repurchase facilities with comparable terms to those that existed at June 30, 2022 with maturities through November 18, 2022.

The table below presents information about our period end, maximum and average balances of borrowings for each quarter in 2022 to date and 2021.

($ in thousands)

Three Months Ended		Ending Balance of Borrowings		Maximum Balance of Borrowings		Average Balance of Borrowings		Difference Between Ending Borrowings and Average Borrowings Amount	Percent
June 30, 2022	$	3,758,980	$	4,464,544	$	4,111,544	$	(352,564)	(8.57)%
March 31, 2022		4,464,109		6,244,106		5,354,107		(889,998)	(16.62)%(1)
December 31, 2021		6,244,106		6,419,689		5,728,988		515,118	8.99%
September 30, 2021		5,213,869		5,214,254		4,864,287		349,582	7.19%
June 30, 2021		4,514,704		4,517,953		4,348,192		166,512	3.83%
March 31, 2021		4,181,680		4,204,935		3,888,633		293,047	7.54%

(1) The lower ending balance relative to the average balance during the quarter ended March 31, 2022 reflects the disposal of RMBS pledged as collateral. During the quarter ended March 31, 2022, the Company's investment in RMBS decreased $510.4 million.

Liquidity and Capital Resources

Liquidity is our ability to turn non-cash assets into cash, purchase additional investments, repay principal and interest on borrowings, fund overhead, fulfill margin calls and pay dividends. We have both internal and external sources of liquidity. However, our material unused sources of liquidity include cash balances, unencumbered assets and our ability to sell encumbered assets to raise cash. Our balance sheet also generates liquidity on an on-going basis through payments of principal and interest we receive on our RMBS portfolio. Management believes that we currently have sufficient liquidity and capital resources available for (a) the acquisition of additional investments consistent with the size and nature of our existing RMBS portfolio, (b) the repayments on borrowings and (c) the payment of dividends to the extent required for our continued qualification as a REIT. We may also generate liquidity from time to time by selling our equity or debt securities in public offerings or private placements.

Internal Sources of Liquidity

Our internal sources of liquidity include our cash balances, unencumbered assets and our ability to liquidate our encumbered security holdings. Our balance sheet also generates liquidity on an on-going basis through payments of principal and interest we receive on our RMBS portfolio. Because our PT RMBS portfolio consists entirely of government and agency securities, we do not anticipate having difficulty converting our assets to cash should our liquidity needs ever exceed our immediately available sources of cash. Our structured RMBS portfolio also consists entirely of governmental agency securities, although they typically do not trade with comparable bid / ask spreads as PT RMBS. However, we anticipate that we would be able to liquidate such securities readily, even in distressed markets, although we would likely do so at prices below where such securities could be sold in a more stable market. To enhance our liquidity even further, we may pledge a portion of our structured RMBS as part of a repurchase agreement funding, but retain the cash in lieu of acquiring additional assets. In this way we can, at a modest cost, retain higher levels of cash on hand and decrease the likelihood we will have to sell assets in a distressed market in order to raise cash.

Our strategy for hedging our funding costs typically involves taking short positions in interest rate futures, treasury futures, interest rate swaps, interest rate swaptions or other instruments. When the market causes these short positions to decline in value we are required to meet margin calls with cash. This can reduce our liquidity position to the extent other securities in our portfolio move in price in such a way that we do not receive enough cash via margin calls to offset the derivative related margin calls. If this were to occur in sufficient magnitude, the loss of liquidity might force us to reduce the size of the levered portfolio, pledge additional structured securities to raise funds or risk operating the portfolio with less liquidity.

External Sources of Liquidity

Our primary external sources of liquidity are our ability to (i) borrow under master repurchase agreements, (ii) use the TBA security market and (iii) sell our equity or debt securities in public offerings or private placements. Our borrowing capacity will vary over time as the market value of our interest earning assets varies. Our master repurchase agreements have no stated expiration, but can be terminated at any time at our option or at the option of the counterparty. However, once a definitive repurchase agreement under a master repurchase agreement has been entered into, it generally may not be terminated by either party. A negotiated termination can occur, but may involve a fee to be paid by the party seeking to terminate the repurchase agreement transaction.

Under our repurchase agreement funding arrangements, we are required to post margin at the initiation of the borrowing. The margin posted represents the haircut, which is a percentage of the market value of the collateral pledged. To the extent the market value of the asset collateralizing the financing transaction declines, the market value of our posted margin will be insufficient and we will be required to post additional collateral. Conversely, if the market value of the asset pledged increases in value, we would be over collateralized and we would be entitled to have excess margin returned to us by the counterparty. Our lenders typically value our pledged securities daily to ensure the adequacy of our margin and make margin calls as needed, as do we. Typically, but not always, the parties agree to a minimum threshold amount for margin calls so as to avoid the need for nuisance margin calls on a daily basis. Our master repurchase agreements do not specify the haircut; rather haircuts are determined on an individual repurchase transaction basis. Throughout the six months ended June 30, 2022, haircuts on our pledged collateral remained stable and as of June 30, 2022, our weighted average haircut was approximately 4.9% of the value of our collateral.

TBAs represent a form of off-balance sheet financing and are accounted for as derivative instruments. (See Note 4 to our Financial Statements in this Form 10-Q for additional details on our TBAs). Under certain market conditions, it may be uneconomical for us to roll our TBAs into future months and we may need to take or make physical delivery of the underlying securities. If we were required to take physical delivery to settle a long TBA, we would have to fund our total purchase commitment with cash or other financing sources and our liquidity position could be negatively impacted.

Our TBAs are also subject to margin requirements governed by the Mortgage-Backed Securities Division ("MBSD") of the FICC and by our Master Securities Forward Transaction Agreements (“MSFTAs”), which may establish margin levels in excess of the MBSD. Such provisions require that we establish an initial margin based on the notional value of the TBA, which is subject to increase if the estimated fair value of our TBAs or the estimated fair value of our pledged collateral declines. The MBSD has the sole discretion to determine the value of our TBAs and of the pledged collateral securing such contracts. In the event of a margin call, we must generally provide additional collateral on the same business day.

Settlement of our TBA obligations by taking delivery of the underlying securities as well as satisfying margin requirements could negatively impact our liquidity position. However, since we do not use TBA dollar roll transactions as our primary source of financing, we believe that we will have adequate sources of liquidity to meet such obligations.

As discussed earlier, we invest a portion of our capital in structured Agency RMBS. We generally do not apply leverage to this portion of our portfolio. The leverage inherent in structured securities replaces the leverage obtained by acquiring PT securities and funding them in the repurchase market. This structured RMBS strategy has been a core element of the Company’s overall investment strategy since inception. However, we have and may continue to pledge a portion of our structured RMBS in order to raise our cash levels, but generally will not pledge these securities in order to acquire additional assets.

In future periods, we expect to continue to finance our activities in a manner that is consistent with our current operations through repurchase agreements. As of June 30, 2022, we had cash and cash equivalents of $219.0 million. We generated cash flows of $361.2 million from principal and interest payments on our RMBS and had average repurchase agreements outstanding of $4,732.8 million during the six months ended June 30, 2022.

As described more fully below, we may also access liquidity by selling our equity or debt securities in public offerings or private placements.

Stockholders' Equity

On August 4, 2020, we entered into the August 2020 Equity Distribution Agreement with four sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $150,000,000 of shares of our common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. We issued a total of 27,493,650 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $150.0 million, and net proceeds of approximately $147.4 million, after commissions and fees, prior to its termination in June 2021.

On January 20, 2021, we entered into the January 2021 Underwriting Agreement with J.P. Morgan Securities LLC ("J.P. Morgan"), relating to the offer and sale of 7,600,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the January 2021 Underwriting Agreement at $5.20 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 1,140,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on January 21, 2021. The closing of the offering of 8,740,000 shares of our common stock occurred on January 25, 2021, with proceeds to us of approximately $45.2 million, net of offering expenses.

On March 2, 2021, we entered into the March 2021 Underwriting Agreement with J.P. Morgan, relating to the offer and sale of 8,000,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the March 2021 Underwriting Agreement at $5.45 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 1,200,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on March 3, 2021. The closing of the offering of 9,200,000 shares of our common stock occurred on March 5, 2021, with proceeds to us of approximately $50.0 million, net of offering expenses payable.

On June 22, 2021, we entered into the June 2021 Equity Distribution Agreement with four sales agents pursuant to which we may could offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of our common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. We issued a total of 49,407,336 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $250.0 million, and net proceeds of approximately $246.2 million, after commissions and fees, prior to its termination in October 2021.

On October 29, 2021, we entered into the October 2021 Equity Distribution Agreement with four sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of our common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. Through June 30, 2022, we issued a total of 15,835,700 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $78.3 million, and net proceeds of approximately $77.0 million, after commissions and fees.

Outlook

Economic Summary

The second quarter of 2022 was another transitional period as the outlook for the economy, inflation and monetary policy changed materially. Inflationary data was the driver of these developments. Inflation in the U.S. began to accelerate during the second quarter of 2021. For several months market participants, and especially the Fed, assumed that inflation would prove transitory as it was assumed temporary supply chain constraints caused by COVID-19 were the cause and that these constraints would fade as the effects of COVID-19 itself declined over time. The sub-components of inflation exhibiting the largest increases were items likely to be affected by the effects of COVID-19 on the supply of labor, or lack thereof in this case. By early in the fourth quarter of 2021 the Fed formally dropped their contention that inflation was "transitory." The Fed quickly pivoted from providing monetary policy accommodation to constraining inflation and reducing their balance sheet. The war in the Ukraine, which started in late February of 2022, exacerbated the inflationary forces. At the beginning of the second quarter market participants expected year-over-year inflation readings to moderate as baseline effects would kick in, since inflation had surged starting in the second quarter of 2021. This did not happen, and the monthly core consumer price index ("CPI") readings for May and June of 2022 were quite high – 0.6% and 0.7% respectively – after a 0.6% increase for April of 2022. Inflation was accelerating during the second quarter, not moderating, and becoming broader based. Further, survey-based measures of inflation expectations were rising rapidly. The most recent measures of inflation are the highest in four decades.

While several important metrics of economic activity remain very strong, particularly hiring in the labor market and the unemployment rate, other measures have softened. In particular, interest rate sensitive sectors of the economy, such as the housing market and large consumer goods such as sales of cars and light trucks, have declined from peak levels seen earlier in the year. The stock markets in the U.S. and abroad have declined materially so far in 2022 and most broad equity indices are down between 10% and 30% year to date in U.S. dollar terms. With the Fed in the midst of an accelerated tightening cycle the dollar has strengthened against most major currencies, such as the Euro, Yen, Yuan and most emerging market currencies.

Interest Rates

With inflation accelerating to the highest level since the early 1980s and the Fed intent on taking the Fed Funds rate to levels well above their presumptive "neutral" rate of 2.50% to 2.75%, interest rates increased further during the second quarter. The yield on the 10-year U.S. Treasury Note came within a few basis points of 3.50% on June 14, 2022, a few days after the May CPI was released. That same day, the yield on the 2-year U.S. Treasury Note reached 3.43%. Yields on both benchmark treasuries declined modestly over the balance of the quarter and into the third quarter of 2022.

The Fed reacted quickly as these developments unfolded and raised the Fed Funds rate by 50 basis points on May 4, 2022, and 75 basis points on June 15, 2022. The Fed raised the Fed Funds rate by another 75 basis points on July 27, 2022. The market expects the Fed to continue to raise rates at each remaining meeting in 2022 and for the Fed Funds rate to end the year with a target range of 3.5% - 3.75%. This range is clearly above the Fed's long-term neutral rate – deemed to be between 2.50% and 2.75%. The Fed has also acknowledged their efforts to bring inflation under control and taking the Fed Funds rate above neutral may cause the economy to enter a recession. They deem these steps as necessary to prevent inflation from remaining higher than the Fed's target rate of inflation.

This rapid transition from accommodation to the extreme removal of policy accommodation – to the point of a restrictive policy stance – has materially changed the outlook for the economy. The Fed's policy actions have also been matched by most central banks across the globe, and most market participants expect a global recession within a year or so. In the U.S., market participants feel the Fed will succeed in reducing inflation, albeit at the cost of a recession, and as a result the U.S. Treasury yield curve has inverted. Current market pricing in the Fed Funds futures market indicate the market expects the Fed to be cutting rates as early as the first quarter of 2023. Accordingly, the yield on the 2-year U.S. Treasury Note now exceeds the yield on the 10-year U.S. Treasury Note. Incoming economic data during the second quarter and early third quarter has exacerbated the yield curve inversion. It appears the economy is slowing even quicker than feared, but with inflation so high it does not appear that the Fed will stop tightening. Such conditions, should they persist, are likely to keep shorter maturity U.S. Treasuries high – reflecting increases to the Fed Funds rate over the near term – relative to longer rates, which reflect market expectations for inflation to ultimately be contained, the economy to slow and the Fed to eventually lower the Fed Funds rate.

The Agency RMBS Market

The Agency RMBS market generated a negative return of 3.9 % during the second quarter of 2022. As interest rates rose, the prospect of the Fed raising the Fed Funds rate well above 3% by year end and the largest RMBS investors selling or decreasing their exposure to the sector, Agency RMBS spreads relative to benchmark interest rates increased to levels just below those observed in March of 2020. The largest investors of Agency RMBS, the Fed via quantitative easing (which is now quantitative tightening as the Fed allows their holdings of Agency RMBS to run-off), large domestic banks (which due to quantitative tightening are experiencing declines in reserves/deposits) and large money managers (which see other sectors of the fixed income markets as more attractive or are experiencing out-flows in their assets under management and selling assets across all of their holdings), are collectively causing demand for Agency RMBS to decline materially and driving the spread widening. The relative performance across the Agency RMBS universe is skewed in favor of higher coupon, 30-year securities that are currently in production by originators. Lower coupon securities, especially those held in large amounts by the Fed, and which may eventually be sold by the Fed, have performed the worst, though this trend has reversed in the third quarter.

As both the domestic and the global economies appear to be slowing, the more credit sensitive sectors of the fixed income markets have come under pressure and are likely to further weaken if the economies do indeed contract. As a result, the relative performance of Agency RMBS, while negative in absolute terms, has been better than most sectors of the fixed income markets. Actions by the Fed as described above may prevent the sector from performing well in the near term but, if the economy does contract and enter a recession, the sector could do well on a relative performance basis owing to the lack of credit exposure of Agency RMBS. This is consistent with the sector's history of performance in a counter-cyclical manner – doing well when the economy is soft and relatively poorly when the economy is strong.

Recent Legislative and Regulatory Developments

In response to the deterioration in the markets for U.S. Treasuries, Agency RMBS and other mortgage and fixed income markets as investors liquidated investments in response to the economic crisis resulting from the actions to contain and minimize the impacts of the COVID-19 pandemic, on the morning of Monday, March 23, 2020, the Fed announced a program to acquire U.S. Treasuries and Agency RMBS in the amounts needed to support smooth market functioning. With these purchases, market conditions improved substantially. Through November of 2021, the Fed was committed to purchasing $80 billion of U.S. Treasuries and $40 billion of Agency RMBS each month. In November of 2021, it began tapering its net asset purchases each month and ended net asset purchases entirely by early March of 2022. On May 4, 2022, the FOMC announced a plan for reducing the Fed's balance sheet. In June of 2022, in accordance with this plan, the Fed began reducing its balance sheet by a maximum of $30 billion of U.S. Treasuries and $17.5 billion of Agency RMBS each month, with those numbers expected to double in September of 2022 to a maximum of $60 billion of U.S. Treasuries and $35 billion of Agency RMBS each month.

On December 27, 2020, former President Trump signed into law an additional $900 billion coronavirus aid package as part of the Consolidated Appropriations Act, 2021, providing for extensions of many of the CARES Act policies and programs as well as additional relief. On January 29, 2021, the CDC issued guidance extending eviction moratoriums for covered persons through March 31, 2021. The FHFA subsequently extended the foreclosure moratorium begun under the CARES Act for loans backed by Fannie Mae and Freddie Mac and the eviction moratorium for real estate owned by Fannie Mae and Freddie Mac until July 31, 2021 and September 30, 2021, respectively. The U.S. Housing and Urban Development Department subsequently extended the FHA foreclosure and eviction moratoria to July 31, 2021, and September 30, 2021, respectively. Despite the expirations of these foreclosure moratoria, a final rule adopted by the CFPB on June 28, 2021, effectively prohibited servicers from initiating a foreclosure before January 1, 2022 in most instances. Following the end of this limitation, U.S. foreclosure starts for the first half of 2022 were up 153% and down 1% from the comparable periods in 2021 and 2020, respectively, and at 41% of the 10-year historic average for the comparable period.

In January 2019, the Trump administration made statements of its plans to work with Congress to overhaul Fannie Mae and Freddie Mac and expectations to announce a framework for the development of a policy for comprehensive housing finance reform soon. On September 30, 2019, the FHFA announced that Fannie Mae and Freddie Mac were allowed to increase their capital buffers to $25 billion and $20 billion, respectively, from the prior limit of $3 billion each. This step could ultimately lead to Fannie Mae and Freddie Mac being privatized and represents the first concrete step on the road to GSE reform. On June 30, 2020, the FHFA released a proposed rule on a new regulatory framework for the GSEs which seeks to implement both a risk-based capital framework and minimum leverage capital requirements. The final rule on the new capital framework for the GSEs was published in the federal register in December 2020. On January 14, 2021, the U.S. Treasury and the FHFA executed letter agreements allowing the GSEs to continue to retain capital up to their regulatory minimums, including buffers, as prescribed in the December rule. These letter agreements provide, in part, (i) there will be no exit from conservatorship until all material litigation is settled and the GSE has common equity Tier 1 capital of at least 3% of its assets, (ii) the GSEs will comply with the FHFA's regulatory capital framework, (iii) higher-risk single-family mortgage acquisitions will be restricted to current levels, and (iv) the U.S. Treasury and the FHFA will establish a timeline and process for future GSE reform. However, no definitive proposals or legislation have been released or enacted with respect to ending the conservatorship, unwinding the GSEs, or materially reducing the roles of the GSEs in the U.S. mortgage market. On September 14, 2021, the U.S. Treasury and the FHFA suspended certain policy provisions in the January agreement, including limits on loans acquired for cash consideration, multifamily loans, loans with higher risk characteristics and second homes and investment properties. On February 25, 2022, the FHFA published a final rule, effective as of April 26, 2022, amending the GSE capital framework established in December 2020 by, among other things, replacing the fixed leverage buffer equal to 1.5% of a GSE's adjusted total assets with a dynamic leverage buffer equal to 50% of a GSE's stability capital buffer, reducing the risk weight floor from 10% to 5%, and removing the requirement that the GSEs must apply an overall effectiveness adjustment to their credit risk transfer exposures. On June 14, 2022, the GSEs announced that they will each charge a 50 bps fee for commingled securities issued on or after July 1, 2022 to cover the additional capital required for such securities under the GSE capital framework. Industry groups have expressed concern that this poses a risk to the fungibility of the Uniform Mortgage-Backed Security ("UMBS"), which could negatively impact liquidity and pricing in the market for TBA securities.

In 2017, policymakers announced that LIBOR will be replaced by December 31, 2021. The directive was spurred by the fact that banks are uncomfortable contributing to the LIBOR panel given the shortage of underlying transactions on which to base levels and the liability associated with submitting an unfounded level. However, the ICE Benchmark Administration, in its capacity as administrator of USD LIBOR, has announced that it intends to extend publication of USD LIBOR (other than one-week and two-month tenors) by 18 months to June 2023. Notwithstanding this extension, a joint statement by key regulatory authorities calls on banks to cease entering into new contracts that use USD LIBOR as a reference rate by no later than December 31, 2021.

On December 7, 2021, the CFPB released a final rule that amends Regulation Z, which implemented the Truth in Lending Act, aimed at addressing cessation of LIBOR for both closed-end (e.g., home mortgage) and open-end (e.g., home equity line of credit) products. The rule, which mostly became effective in April of 2022, establishes requirements for the selection of replacement indices for existing LIBOR-linked consumer loans. Although the rule does not mandate the use of SOFR as the alternative rate, it identifies SOFR as a comparable rate for closed-end products and states that for open-end products, the CFPB has determined that ARRC's recommended spread-adjusted indices based on SOFR for consumer products to replace the one-month, three-month, or six-month USD LIBOR index "have historical fluctuations that are substantially similar to those of the LIBOR indices that they are intended to replace." The CFPB reserved judgment, however, on a SOFR-based spread-adjusted replacement index to replace the one-year USD LIBOR until it obtained additional information.

On March 15, 2022, the Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act") was signed into law as part of the Consolidated Appropriations Act, 2022 (H.R. 2471). The LIBOR Act provides for a statutory replacement benchmark rate for contracts that use LIBOR as a benchmark and do not contain any fallback mechanism independent of LIBOR. Pursuant to the LIBOR Act, SOFR becomes the new benchmark rate by operation of law for any such contract. The LIBOR Act establishes a safe harbor from litigation for claims arising out of or related to the use of SOFR as the recommended benchmark replacement. The LIBOR Act makes clear that it should not be construed to disfavor the use of any benchmark on a prospective basis.

The LIBOR Act also attempts to forestall challenges that it is impairing contracts. It provides that the discontinuance of LIBOR and the automatic statutory transition to a replacement rate neither impairs or affects the rights of a party to receive payment under such contracts, nor allows a party to discharge their performance obligations or to declare a breach of contract. It amends the Trust Indenture Act of 1939 to state that the "the right of any holder of any indenture security to receive payment of the principal of and interest on such indenture security shall not be deemed to be impaired or affected" by application of the LIBOR Act to any indenture security.

One-week and two-month U.S. dollar LIBOR rates phased out on December 31, 2021, but other U.S. dollar tenors may continue until June 30, 2023. We will monitor the emergence of SOFR carefully as it appears likely to become the new benchmark for hedges and a range of interest rate investments.

Effective January 1, 2021, Fannie Mae, in alignment with Freddie Mac, extended the timeframe for its delinquent loan buyout policy for Single-Family Uniform Mortgage-Backed Securities (UMBS) and Mortgage-Backed Securities (MBS) from four consecutively missed monthly payments to twenty-four consecutively missed monthly payments (i.e., 24 months past due). This new timeframe applied to outstanding single-family pools and newly issued single-family pools and was first reflected when January 2021 factors were released on the fourth business day in February 2021.

For Agency RMBS investors, when a delinquent loan is bought out of a pool of mortgage loans, the removal of the loan from the pool is the same as a total prepayment of the loan. The respective GSEs anticipated, however, that delinquent loans will be repurchased in most cases before the 24-month deadline under one of the following exceptions listed below.

- a loan that is paid in full, or where the related lien is released and/or the note debt is satisfied or forgiven;
- a loan repurchased by a seller/servicer under applicable selling and servicing requirements;
- a loan entering a permanent modification, which generally requires it to be removed from the MBS. During any modification trial period, the loan will remain in the MBS until the trial period ends;
- a loan subject to a short sale or deed-in-lieu of foreclosure; or
- a loan referred to foreclosure.

Because of these exceptions, the GSEs believe based on prevailing assumptions and market conditions this change will have only a marginal impact on prepayment speeds, in aggregate. Cohort level impacts may vary. For example, more than half of loans referred to foreclosure are historically referred within six months of delinquency. The degree to which speeds are affected depends on delinquency levels, borrower response, and referral to foreclosure timelines.

The scope and nature of the actions the U.S. government or the Fed will ultimately undertake are unknown and will continue to evolve

Effect on Us

Regulatory developments, movements in interest rates and prepayment rates affect us in many ways, including the following:

Effects on our Assets

A change in or elimination of the guarantee structure of Agency RMBS may increase our costs (if, for example, guarantee fees increase) or require us to change our investment strategy altogether. For example, the elimination of the guarantee structure of Agency RMBS may cause us to change our investment strategy to focus on non-Agency RMBS, which in turn would require us to significantly increase our monitoring of the credit risks of our investments in addition to interest rate and prepayment risks.

Lower long-term interest rates can affect the value of our Agency RMBS in a number of ways. If prepayment rates are relatively low (due, in part, to the refinancing problems described above), lower long-term interest rates can increase the value of higher-coupon Agency RMBS. This is because investors typically place a premium on assets with yields that are higher than market yields. Although lower long-term interest rates may increase asset values in our portfolio, we may not be able to invest new funds in similarly-yielding assets.

If prepayment levels increase, the value of our Agency RMBS affected by such prepayments may decline. This is because a principal prepayment accelerates the effective term of an Agency RMBS, which would shorten the period during which an investor would receive above-market returns (assuming the yield on the prepaid asset is higher than market yields). Also, prepayment proceeds may not be able to be reinvested in similar-yielding assets. Agency RMBS backed by mortgages with high interest rates are more susceptible to prepayment risk because holders of those mortgages are most likely to refinance to a lower rate. IOs and IIOs, however, may be the types of Agency RMBS most sensitive to increased prepayment rates. Because the holder of an IO or IIO receives no principal payments, the values of IOs and IIOs are entirely dependent on the existence of a principal balance on the underlying mortgages. If the principal balance is eliminated due to prepayment, IOs and IIOs essentially become worthless. Although increased prepayment rates can negatively affect the value of our IOs and IIOs, they have the opposite effect on POs. Because POs act like zero-coupon bonds, meaning they are purchased at a discount to their par value and have an effective interest rate based on the discount and the term of the underlying loan, an increase in prepayment rates would reduce the effective term of our POs and accelerate the yields earned on those assets, which would increase our net income.

Higher long-term rates can also affect the value of our Agency RMBS. As long-term rates rise, rates available to borrowers also rise. This tends to cause prepayment activity to slow and extend the expected average life of mortgage cash flows. As the expected average life of the mortgage cash flows increases, coupled with higher discount rates, the value of Agency RMBS declines. Some of the instruments the Company uses to hedge our Agency RMBS assets, such as interest rate futures, swaps and swaptions, are stable average life instruments. This means that to the extent we use such instruments to hedge our Agency RMBS assets, our hedges may not adequately protect us from price declines, and therefore may negatively impact our book value. It is for this reason we use interest only securities in our portfolio. As interest rates rise, the expected average life of these securities increases, causing generally positive price movements as the number and size of the cash flows increase the longer the underlying mortgages remain outstanding. This makes interest only securities desirable hedge instruments for pass-through Agency RMBS.

As described above, the Agency RMBS market began to experience severe dislocations in mid-March 2020 as a result of the economic, health and market turmoil brought about by COVID-19. On March 23, 2020, the Fed announced that it would purchase Agency RMBS and U.S. Treasuries in the amounts needed to support smooth market functioning, which largely stabilized the Agency RMBS market, but ended these purchases in March 2022 and announced plans to reduce its balance sheet. The Fed's planned reduction of its balance sheet could negatively impact our investment portfolio. Further, the moratoriums on foreclosures and evictions described above will likely delay potential defaults on loans that would otherwise be bought out of Agency RMBS pools as described above. Depending on the ultimate resolution of the foreclosure or evictions, when and if it occurs, these loans may be removed from the pool into which they were securitized. If this were to occur, it would have the effect of delaying a prepayment on the Company's securities until such time. As the majority of the Company's Agency RMBS assets were acquired at a premium to par, this will tend to increase the realized yield on the asset in question.

Because we base our investment decisions on risk management principles rather than anticipated movements in interest rates, in a volatile interest rate environment we may allocate more capital to structured Agency RMBS with shorter durations. We believe these securities have a lower sensitivity to changes in long-term interest rates than other asset classes. We may attempt to mitigate our exposure to changes in long-term interest rates by investing in IOs and IIOs, which typically have different sensitivities to changes in long-term interest rates than PT RMBS, particularly PT RMBS backed by fixed-rate mortgages.

Effects on our borrowing costs

We leverage our PT RMBS portfolio and a portion of our structured Agency RMBS with principal balances through the use of short-term repurchase agreement transactions. The interest rates on our debt are determined by the short term interest rate markets. Increases in the Fed Funds rate, SOFR or LIBOR typically increase our borrowing costs, which could affect our interest rate spread if there is no corresponding increase in the interest we earn on our assets. This would be most prevalent with respect to our Agency RMBS backed by fixed rate mortgage loans because the interest rate on a fixed-rate mortgage loan does not change even though market rates may change.

In order to protect our net interest margin against increases in short-term interest rates, we may enter into interest rate swaps, which economically convert our floating-rate repurchase agreement debt to fixed-rate debt, or utilize other hedging instruments such as Eurodollar, Fed Funds and T-Note futures contracts or interest rate swaptions.

Summary

During the latter part of the second quarter of 2022 inflation data drove a material change in Fed policy, interest rates and the outlook for the economy. Specifically, the CPI for May, released in June, was far above market expectations. Survey measures of inflation expectations, released on the same day, surged to multi-decade highs. In July, the June CPI reading was released and was again well above market expectations. Equally troubling, elevated inflation readings were very broad based, implying inflationary pressures have clearly spread from just those sectors most exposed to COVID-19 related supply constraints. This was the catalyst for the Fed to pivot even more forcefully than they did during late 2021/early 2022, and the Fed raised the Fed Funds rate by 200 basis points collectively at the May, June and July meetings. The market expects the Fed to continuing raising the Fed Funds rate by another 100 basis points by year-end. Increases in the Fed Funds rate are likely to affect economic activity, and the Fed has acknowledged their actions may lead to a recession. Sectors of the economy most sensitive to interest rates – such as housing – have already started to slow and other economic indicators have shown evidence of slowing, such as new orders and production levels for the manufacturing sector as reported by the Institute for Supply Management. Initial claims for unemployment in July of 2022 have risen by approximately 94,000 above the low reading reported in March of 2022.

The market appears to anticipate the Fed will be able to contain inflation and that the result will be a contraction in economic growth. This is reflected in yields for longer-term U.S. Treasuries. With the Fed expected to increase the Fed Funds rate by another 100 basis points or more, shorter maturity U.S. Treasuries remain elevated, with the yield on the 2-year U.S. Treasury Note yielding approximately 3.07% on August 3, 2022. The combined effect – more increases to the Fed Funds rate, inflation to be ultimately contained by the Fed albeit potentially at the expense of a recession, has caused the yield curve to invert whereby shorter maturity U.S. Treasuries yield more than long-term U.S. Treasuries. This condition may persist for the balance of 2022 and into 2023.

The Agency RMBS market generated negative returns for the second quarter (-3.9%) and year-to-date (-8.8%), and such returns were lower than comparable duration U.S. Treasuries by 1.20% and 2.3%, respectively. During June of 2022, spreads to comparable duration U.S. Treasuries were near the extreme levels observed in March of 2020 when the markets experienced the extreme turbulence in the early days of the COVID-19 pandemic that triggered unprecedented intervention in the market by the Fed. In spite of this poor performance, Agency RMBS actually delivered better returns than most sectors of the fixed income markets during the second quarter and first six months of 2022. For this reason, returns to the sector may remain low as the largest participants in the sector – the Fed via quantitative easing, now quantitative tightening, and large banks and money managers – refrain from increasing their investments in the sector. However, if the economy does enter into a recession the sector could outperform other sectors owing to its lack of credit risk and the prospects for lower funding rates and declining longer-term rates. Through the early days of the third quarter of 2022, Agency RMBS have performed well and most of the widening in spreads that occurred in June of 2022 has reversed.

Critical Accounting Estimates

Our condensed financial statements are prepared in accordance with GAAP. GAAP requires our management to make some complex and subjective decisions and assessments. Our most critical accounting estimates involve decisions and assessments which could significantly affect reported assets, liabilities, revenues and expenses. There have been no changes to our critical accounting estimates as discussed in our annual report on Form 10-K for the year ended December 31, 2021.

Capital Expenditures

At June 30, 2022, we had no material commitments for capital expenditures.

Off-Balance Sheet Arrangements

At June 30, 2022, we did not have any off-balance sheet arrangements.

Dividends

In addition to other requirements that must be satisfied to continue to qualify as a REIT, we must pay annual dividends to our stockholders of at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. REIT taxable income (loss) is computed in accordance with the Code, and can be greater than or less than our financial statement net income (loss) computed in accordance with GAAP. These book to tax differences primarily relate to the recognition of interest income on RMBS, unrealized gains and losses on RMBS, and the amortization of losses on derivative instruments that are treated as funding hedges for tax purposes.

We intend to pay regular monthly dividends to our stockholders and have declared the following dividends since the completion of our IPO.

(in thousands, except per share amounts)

Year		Per Share Amount		Total
2013	$	1.395	$	4,662
2014		2.160		22,643
2015		1.920		38,748
2016		1.680		41,388
2017		1.680		70,717
2018		1.070		55,814
2019		0.960		54,421
2020		0.790		53,570
2021		0.780		97,601
2022 - YTD[(1)]		0.335		59,383
Totals	$	12.770	$	498,947

(1) On July 13, 2022, the Company declared a dividend of $0.045 per share to be paid on August 29, 2022. The effect of this dividend is included in the table above, but is not reflected in the Company's financial statements as of June 30, 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in market factors such as interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risks that we are exposed to are interest rate risk, prepayment risk, spread risk, liquidity risk, extension risk and counterparty credit risk.

Interest Rate Risk

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

Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities, by affecting the spread between our interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates can also affect the rate of prepayments of our securities and the value of the RMBS that constitute our investment portfolio, which affects our net income, ability to realize gains from the sale of these assets and ability to borrow, and the amount that we can borrow against these securities.

We may utilize a variety of financial instruments in order to limit the effects of changes in interest rates on our operations. The principal instruments that we use are futures contracts, interest rate swaps and swaptions. These instruments are intended to serve as an economic hedge against future interest rate increases on our repurchase agreement borrowings. Hedging techniques are partly based on assumed levels of prepayments of our Agency RMBS. If prepayments are slower or faster than assumed, the life of the Agency RMBS will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions. Hedging strategies involving the use of derivative securities are highly complex and may produce volatile returns. Hedging techniques are also limited by the rules relating to REIT qualification. In order to preserve our REIT status, we may be forced to terminate a hedging transaction at a time when the transaction is most needed.

Our profitability and the value of our investment portfolio (including derivatives used for hedging purposes) may be adversely affected during any period as a result of changing interest rates, including changes in the forward yield curve.

Our portfolio of PT RMBS is typically comprised of adjustable-rate RMBS ("ARMs"), fixed-rate RMBS and hybrid adjustable-rate RMBS. We generally seek to acquire low duration assets that offer high levels of protection from mortgage prepayments provided that they are reasonably priced by the market. Although the duration of an individual asset can change as a result of changes in interest rates, we strive to maintain a hedged PT RMBS portfolio with an effective duration of less than 2.0. The stated contractual final maturity of the mortgage loans underlying our portfolio of PT RMBS generally ranges up to 30 years. However, the effect of prepayments of the underlying mortgage loans tends to shorten the resulting cash flows from our investments substantially. Prepayments occur for various reasons, including refinancing of underlying mortgages and loan payoffs in connection with home sales, and borrowers paying more than their scheduled loan payments, which accelerates the amortization of the loans.

The duration of our IO and IIO portfolios will vary greatly depending on the structural features of the securities. While prepayment activity will always affect the cash flows associated with the securities, the interest only nature of IOs may cause their durations to become extremely negative when prepayments are high, and less negative when prepayments are low. Prepayments affect the durations of IIOs similarly, but the floating rate nature of the coupon of IIOs (which is inversely related to the level of one month LIBOR) causes their price movements, and model duration, to be affected by changes in both prepayments and one month LIBOR, both current and anticipated levels. As a result, the duration of IIO securities will also vary greatly.

Prepayments on the loans underlying our RMBS can alter the timing of the cash flows from the underlying loans to us. As a result, we gauge the interest rate sensitivity of our assets by measuring their effective duration. While modified duration measures the price sensitivity of a bond to movements in interest rates, effective duration captures both the movement in interest rates and the fact that cash flows to a mortgage related security are altered when interest rates move. Accordingly, when the contract interest rate on a mortgage loan is substantially above prevailing interest rates in the market, the effective duration of securities collateralized by such loans can be quite low because of expected prepayments.

We face the risk that the market value of our PT RMBS assets will increase or decrease at different rates than that of our structured RMBS or liabilities, including our hedging instruments. Accordingly, we assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. We generally calculate duration using various third party models. However, empirical results and various third party models may produce different duration numbers for the same securities.

The following sensitivity analysis shows the estimated impact on the fair value of our interest rate-sensitive investments and hedge positions as of June 30, 2022 and December 31, 2021, assuming rates instantaneously fall 200 bps, fall 100 bps, fall 50 bps, rise 50 bps, rise 100 bps and rise 200 bps, adjusted to reflect the impact of convexity, which is the measure of the sensitivity of our hedge positions and Agency RMBS' effective duration to movements in interest rates. We have a negatively convex asset profile and a linear to slightly positively convex hedge portfolio (short positions). It is not uncommon for us to have losses in both directions.

All changes in value in the table below are measured as percentage changes from the investment portfolio value and net asset value at the base interest rate scenario. The base interest rate scenario assumes interest rates and prepayment projections as of June 30, 2022 and December 31, 2021.

Actual results could differ materially from estimates, especially in the current market environment. To the extent that these estimates or other assumptions do not hold true, which is likely in a period of high price volatility, actual results will likely differ materially from projections and could be larger or smaller than the estimates in the table below. Moreover, if different models were employed in the analysis, materially different projections could result. Lastly, while the table below reflects the estimated impact of interest rate increases and decreases on a static portfolio, we may from time to time sell any of our agency securities as a part of the overall management of our investment portfolio.

Interest Rate Sensitivity[1]

Change in Interest Rate	Portfolio Market Value[2][3]	Book Value[2][4]
As of June 30, 2022		
-200 Basis Points	(0.05)%	(0.41)%
-100 Basis Points	0.53%	4.10%
-50 Basis Points	0.37%	2.89%
+50 Basis Points	(0.89)%	(6.95)%
+100 Basis Points	(1.79)%	(13.92)%
+200 Basis Points	(8.83)%	(68.68)%
As of December 31, 2021		
-200 Basis Points	(2.01)%	(17.00)%
-100 Basis Points	(0.33)%	(2.76)%
-50 Basis Points	0.19%	1.59%
+50 Basis Points	(0.48)%	(4.04)%
+100 Basis Points	(1.64)%	(13.91)%
+200 Basis Points	(4.79)%	(40.64)%

(1) Interest rate sensitivity is derived from models that are dependent on inputs and assumptions provided by third parties as well as by our Manager, and assumes there are no changes in mortgage spreads and assumes a static portfolio. Actual results could differ materially from these estimates.
(2) Includes the effect of derivatives and other securities used for hedging purposes.
(3) Estimated dollar change in investment portfolio value expressed as a percent of the total fair value of our investment portfolio as of such date.
(4) Estimated dollar change in portfolio value expressed as a percent of stockholders' equity as of such date.

In addition to changes in interest rates, other factors impact the fair value of our interest rate-sensitive investments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of our assets would likely differ from that shown above and such difference might be material and adverse to our stockholders.

Prepayment Risk

Because residential borrowers have the option to prepay their mortgage loans at par at any time, we face the risk that we will experience a return of principal on our investments faster than anticipated. Various factors affect the rate at which mortgage prepayments occur, including changes in the level of and directional trends in housing prices, interest rates, general economic conditions, loan age and size, loan-to-value ratio, the location of the property and social and demographic conditions. Additionally, changes to government sponsored entity underwriting practices or other governmental programs could also significantly impact prepayment rates or expectations. Generally, prepayments on Agency RMBS increase during periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates. However, this may not always be the case. We may reinvest principal repayments at a yield that is lower or higher than the yield on the repaid investment, thus affecting our net interest income by altering the average yield on our assets.

Spread Risk

When the market spread widens between the yield on our Agency RMBS and benchmark interest rates, our net book value could decline if the value of our Agency RMBS falls by more than the offsetting fair value increases on our hedging instruments tied to the underlying benchmark interest rates. We refer to this as "spread risk" or "basis risk." The spread risk associated with our mortgage assets and the resulting fluctuations in fair value of these securities can occur independent of changes in benchmark interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the Fed, market liquidity, or changes in required rates of return on different assets. Consequently, while we use futures contracts and interest rate swaps and swaptions to attempt to protect against moves in interest rates, such instruments typically will not protect our net book value against spread risk.

Liquidity Risk

The primary liquidity risk for us arises from financing long-term assets with shorter-term borrowings through repurchase agreements. Our assets that are pledged to secure repurchase agreements are Agency RMBS and cash. As of June 30, 2022, we had unrestricted cash and cash equivalents of $219.0 million and unpledged securities of approximately $14.7 million (not including unsettled securities purchases or securities pledged to us) available to meet margin calls on our repurchase agreements and derivative contracts, and for other corporate purposes. However, should the value of our Agency RMBS pledged as collateral or the value of our derivative instruments suddenly decrease, margin calls relating to our repurchase and derivative agreements could increase, causing an adverse change in our liquidity position. Further, there is no assurance that we will always be able to renew (or roll) our repurchase agreements. In addition, our counterparties have the option to increase our haircuts (margin requirements) on the assets we pledge against repurchase agreements, thereby reducing the amount that can be borrowed against an asset even if they agree to renew or roll the repurchase agreement. Significantly higher haircuts can reduce our ability to leverage our portfolio or even force us to sell assets, especially if correlated with asset price declines or faster prepayment rates on our assets.

Extension Risk

The projected weighted average life and the duration (or interest rate sensitivity) of our investments is based on our Manager's assumptions regarding the rate at which the borrowers will prepay the underlying mortgage loans. In general, we use futures contracts and interest rate swaps and swaptions to help manage our funding cost on our investments in the event that interest rates rise. These hedging instruments allow us to reduce our funding exposure on the notional amount of the instrument for a specified period of time.

However, if prepayment rates decrease in a rising interest rate environment, the average life or duration of our fixed-rate assets or the fixed-rate portion of the ARMs or other assets generally extends. This could have a negative impact on our results from operations, as our hedging instrument expirations are fixed and will, therefore, cover a smaller percentage of our funding exposure on our mortgage assets to the extent that their average lives increase due to slower prepayments. This situation may also cause the market value of our Agency RMBS and CMOs collateralized by fixed rate mortgages or hybrid ARMs to decline by more than otherwise would be the case while most of our hedging instruments would not receive any incremental offsetting gains. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur realized losses.

Counterparty Credit Risk

We are exposed to counterparty credit risk relating to potential losses that could be recognized in the event that the counterparties to our repurchase agreements and derivative contracts fail to perform their obligations under such agreements. The amount of assets we pledge as collateral in accordance with our agreements varies over time based on the market value and notional amount of such assets as well as the value of our derivative contracts. In the event of a default by a counterparty, we may not receive payments provided for under the terms of our agreements and may have difficulty obtaining our assets pledged as collateral under such agreements. Our credit risk related to certain derivative transactions is largely mitigated through daily adjustments to collateral pledged based on changes in market value and we limit our counterparties to registered central clearing exchanges and major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting collateral posted as required. However, there is no guarantee our efforts to manage counterparty credit risk will be successful and we could suffer significant losses if unsuccessful.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report (the "evaluation date"), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act. Based on this evaluation, the CEO and CFO concluded our disclosure controls and procedures, as designed and implemented, were effective as of the evaluation date (1) in ensuring that information regarding the Company is accumulated and communicated to our management, including our CEO and CFO, by our employees, as appropriate to allow timely decisions regarding required disclosure and (2) in providing reasonable assurance that information we must disclose in our periodic reports under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

There were no significant changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not party to any material pending legal proceedings as described in Item 103 of Regulation S-K.

ITEM 1A. RISK FACTORS

A description of certain factors that may affect our future results and risk factors is set forth in our Annual Report on Form 10-K for the year ended December 31, 2021. As of June 30, 2022, there have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

The Company did not have any unregistered sales of its equity securities during the three months ended June 30, 2022.

The table below presents the Company's share repurchase activity for the three months ended June 30, 2022.

	Total Number of Shares Repurchased(1)	Weighted-Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet Be Repurchased Under the Authorization
April 1, 2022 - April 30, 2022	-	$ -	-	17,699,305
May 1, 2022 - May 31, 2022	-	-	-	17,699,305
June 1, 2022 - June 30, 2022	879,311	2.53	876,299	16,823,006
Totals / Weighted Average	879,311	$ 2.53	876,299	16,823,006

(1) Includes shares of the Company's common stock acquired by the Company in connection with the satisfaction of tax withholding obligations on vested employment related awards under equity incentive plans. These repurchases do not reduce the number of shares available under the stock repurchase program authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.

3.1	Articles of Amendment and Restatement of Orchid Island Capital, Inc. (filed as Exhibit 3.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-184538) filed on November 28, 2012 and incorporated herein by reference).
3.2	Certificate of Correction of Orchid Island Capital, Inc. (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on February 22, 2019 and incorporated herein by reference).
3.3	Amended and Restated Bylaws of Orchid Island Capital, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 19, 2019 and incorporated herein by reference).
4.1	Specimen Certificate of common stock of Orchid Island Capital, Inc. (filed as Exhibit 4.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-184538) filed on November 28, 2012 and incorporated herein by reference).
31.1	Certification of Robert E. Cauley, Chief Executive Officer and President of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of George H. Haas, IV, Chief Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Robert E. Cauley, Chief Executive Officer and President of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of George H. Haas, IV, Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

Exhibit 101.INS XBRL	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.***
Exhibit 101.SCH XBRL	Taxonomy Extension Schema Document ***
Exhibit 101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document***
Exhibit 101.DEF XBRL	Additional Taxonomy Extension Definition Linkbase Document Created***
Exhibit 101.LAB XBRL	Taxonomy Extension Label Linkbase Document ***
Exhibit 101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document ***
Exhibit 104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

** Furnished herewith.

*** Submitted electronically herewith.

† Management contract or compensatory plan.

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.

Orchid Island Capital, Inc.
Registrant

Date:	August 5, 2022	By:	/s/ Robert E. Cauley
			Robert E. Cauley Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)
Date:	August 5, 2022	By:	/s/ George H. Haas, IV
			George H. Haas, IV Secretary, Chief Financial Officer, Chief Investment Officer and Director (Principal Financial and Accounting Officer)