Ellington Financial LLC
Form S-3
April 21, 2014
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As filed with the Securities and Exchange Commission on April 21, 2014

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Ellington Financial LLC

(Exact name of registrant as specified in its governing instruments)

Delaware	**26-0489289**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

53 Forest Avenue

Old Greenwich, Connecticut 06870

(203) 409-3575

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Laurence Penn

Chief Executive Officer

53 Forest Avenue

Old Greenwich, Connecticut 06870

(203) 409-3575

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Daniel M. LeBey

Christopher C. Green

Hunton & Williams LLP

Riverfront Plaza, East Tower

951 E. Byrd Street

Richmond, Virginia 23219-4074

(804) 788-8200

(804) 788-8218 (Facsimile)

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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CALCULATION OF REGISTRATION FEE

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Shares Representing Limited Liability Company Interests, no par value, Preferred Shares Representing Limited Liability Company Interests, Shareholder Rights to Purchase Limited Liability Company Interests, Warrants to Purchase Limited Liability Company Interests and Debt Securities	(3)	(3)
Total	$750,000,000	$96,600(4)

(1) An indeterminate number of the securities of each identified class of securities is being registered for possible issuance from time to time at indeterminate prices. Includes an indeterminate amount of our securities as may be issued upon conversion of or exchange for, as the case may be, any other securities registered under this registration statement.

(2) The proposed maximum aggregate offering price has been estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended. The aggregate public offering price of the securities registered hereunder will not exceed $750,000,000.

(3) Omitted pursuant to Form S-3 General Instruction II-D.

(4) Pursuant to Rule 415(a)(6) and Rule 457(p) under the Securities Act, the Registrant hereby offsets the total registration fee due under this Registration Statement by the amount of the filing fee associated with the unsold securities from the Registrant s Form S-3 Registration Statement, filed by the Registrant with the Commission on November 4, 2011 (SEC File No. 333-177754), registering securities for a maximum aggregate offering price of $750,000,000 (the Prior Registration Statement). Of that amount, the Registrant sold common shares for an aggregate offering price of $215,961,250, leaving a balance of unsold securities with an aggregate offering price of $534,038,750. The associated filing fee of $61,200 for such unsold securities, calculated under Rule 457(o), is hereby used to offset the current registration fee due. Accordingly, the full amount of the $96,600 registration fee currently due for this Registration Statement has been offset against the balance of the fee paid for the Prior Registration Statement and the Registrant is paying $35,400 in filing fees for this Registration Statement.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where an offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 21, 2014

Prospectus

Ellington Financial LLC

$750,000,000

Common Shares Representing Limited Liability Company Interests

Preferred Shares Representing Limited Liability Company Interests

Shareholder Rights to Purchase Common or Preferred Shares Representing Limited Liability Company Interests

Warrants to Purchase Common or Preferred Shares Representing Limited Liability Company Interests

Debt Securities

We may offer, issue and sell, from time to time, up to an aggregate of $750,000,000 of common shares representing limited liability company interests, which we refer to as common shares, preferred shares representing limited liability company interests, which we refer to as preferred shares, shareholder rights to purchase common or preferred shares, which we refer to as shareholder rights, warrants to purchase common or preferred shares, which we refer to as warrants and debt securities, which may consist of debentures, notes, or other types of debt, in one or more offerings. We will provide specific terms of each issuance of these securities in supplements to this prospectus. We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis. You should read this prospectus and any supplement carefully before you decide to invest. This prospectus may not be used to consummate sales of these securities unless it is accompanied by a prospectus supplement.

Ellington Financial LLC is a specialty finance company that acquires and manages mortgage-related assets, including residential mortgage-backed securities backed by prime jumbo, Alternative A-paper, manufactured housing and subprime residential mortgage loans, residential mortgage-backed securities for which the principal and interest payments are guaranteed by a U.S. Government agency or a U.S. Government- sponsored enterprise, residential mortgage loans, mortgage servicing rights, mortgage-related derivatives, commercial mortgage-backed securities, commercial mortgage loans and other commercial real estate debt, asset-backed securities backed by consumer and commercial assets, as well as corporate debt and equity securities and derivatives. We are externally managed and advised by Ellington Financial Management LLC, or our Manager, an affiliate of Ellington Management Group, L.L.C.

Our common shares are listed on the New York Stock Exchange, or NYSE, under the symbol EFC. The last reported sale price of our common shares on the NYSE on April 17, 2014 was $23.21 per share.

Investing in these securities involves risks. You should carefully read and consider the information referred to under Risk Factors on page 20 of this prospectus and any prospectus supplement before making a decision to purchase these securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

THE COMMODITY FUTURES TRADING COMMISSION HAS NOT PASSED UPON THE MERITS OF PARTICIPATING IN THIS POOL NOR HAS THE COMMISSION PASSED ON THE ADEQUACY OR ACCURACY OF THIS DISCLOSURE DOCUMENT.

The date of this prospectus is , 2014

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RISK DISCLOSURE STATEMENT PURSUANT TO SECTION 4.24

OF THE COMMODITY EXCHANGE ACT

YOU SHOULD CAREFULLY CONSIDER WHETHER YOUR FINANCIAL CONDITION PERMITS YOU TO PARTICIPATE IN A COMMODITY POOL. IN SO DOING, YOU SHOULD BE AWARE THAT COMMODITY INTEREST TRADING CAN QUICKLY LEAD TO LARGE LOSSES AS WELL AS GAINS. SUCH TRADING LOSSES CAN SHARPLY REDUCE THE NET ASSET VALUE OF THE POOL AND CONSEQUENTLY THE VALUE OF YOUR INTEREST IN THE POOL. IN ADDITION, RESTRICTIONS ON REDEMPTIONS MAY AFFECT YOUR ABILITY TO WITHDRAW YOUR PARTICIPATION IN THE POOL.

FURTHER, COMMODITY POOLS MAY BE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT, AND ADVISORY AND BROKERAGE FEES. IT MAY BE NECESSARY FOR THOSE POOLS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS. THIS DISCLOSURE DOCUMENT CONTAINS A COMPLETE DESCRIPTION OF EACH EXPENSE TO BE CHARGED THIS POOL AT PAGE 18 AND A STATEMENT OF THE PERCENTAGE RETURN NECESSARY TO BREAK EVEN, THAT IS, TO RECOVER THE AMOUNT OF YOUR INITIAL INVESTMENT, AT PAGE 18.

THIS BRIEF STATEMENT CANNOT DISCLOSE ALL THE RISKS AND OTHER FACTORS NECESSARY TO EVALUATE YOUR PARTICIPATION IN THIS COMMODITY POOL. THEREFORE, BEFORE YOU DECIDE TO PARTICIPATE IN THIS COMMODITY POOL, YOU SHOULD CAREFULLY STUDY THIS DISCLOSURE DOCUMENT, INCLUDING A DESCRIPTION OF THE PRINCIPAL RISK FACTORS OF THIS INVESTMENT, AT PAGE 20.

YOU SHOULD ALSO BE AWARE THAT THIS COMMODITY POOL MAY TRADE FOREIGN FUTURES OR OPTIONS CONTRACTS. TRANSACTIONS ON MARKETS LOCATED OUTSIDE THE UNITED STATES, INCLUDING MARKETS FORMALLY LINKED TO A UNITED STATES MARKET, MAY BE SUBJECT TO REGULATIONS WHICH OFFER DIFFERENT OR DIMINISHED PROTECTION TO THE POOL AND ITS PARTICIPANTS. FURTHER, UNITED STATES REGULATORY AUTHORITIES MAY BE UNABLE TO COMPEL THE ENFORCEMENT OF THE RULES OF REGULATORY AUTHORITIES OR MARKETS IN NON-UNITED STATES JURISDICTIONS WHERE TRANSACTIONS FOR THE POOL MAY BE EFFECTED.

SWAPS TRANSACTIONS, LIKE OTHER FINANCIAL TRANSACTIONS, INVOLVE A VARIETY OF SIGNIFICANT RISKS. THE SPECIFIC RISKS PRESENTED BY A PARTICULAR SWAP TRANSACTION NECESSARILY DEPEND UPON THE TERMS OF THE TRANSACTION AND YOUR CIRCUMSTANCES. IN GENERAL, HOWEVER, ALL SWAPS TRANSACTIONS INVOLVE SOME COMBINATION OF MARKET RISK, CREDIT RISK, COUNTERPARTY CREDIT RISK, FUNDING RISK, LIQUIDITY RISK, AND OPERATIONAL RISK.

HIGHLY CUSTOMIZED SWAPS TRANSACTIONS IN PARTICULAR MAY INCREASE LIQUIDITY RISK, WHICH MAY RESULT IN A SUSPENSION OF REDEMPTIONS. HIGHLY LEVERAGED TRANSACTIONS MAY EXPERIENCE SUBSTANTIAL GAINS OR LOSSES IN VALUE AS A RESULT OF RELATIVELY SMALL CHANGES IN THE VALUE OR LEVEL OF AN UNDERLYING OR RELATED MARKET FACTOR.

IN EVALUATING THE RISKS AND CONTRACTUAL OBLIGATIONS ASSOCIATED WITH A PARTICULAR SWAP TRANSACTION, IT IS IMPORTANT TO CONSIDER THAT A SWAP TRANSACTION MAY BE MODIFIED OR TERMINATED ONLY BY MUTUAL CONSENT OF THE ORIGINAL PARTIES AND SUBJECT TO AGREEMENT ON INDIVIDUALLY NEGOTIATED TERMS. THEREFORE, IT MAY NOT BE POSSIBLE FOR THE COMMODITY POOL OPERATOR TO MODIFY, TERMINATE, OR OFFSET THE POOL S OBLIGATIONS OR THE POOL S EXPOSURE TO THE RISKS ASSOCIATED WITH A TRANSACTION PRIOR TO ITS SCHEDULED TERMINATION DATE.

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ELLINGTON FINANCIAL LLC

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PART ONE

DISCLOSURE DOCUMENT

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You should rely only on the information contained in or incorporated by reference into this prospectus, any prospectus supplement, any free writing prospectus prepared by us or information to which we have referred you. We have not authorized any other person to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus or any prospectus supplement or the documents incorporated by reference herein and therein is current only as of the date on the front of those documents.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC. Under this shelf registration statement, we may offer and sell any combination of our common shares, preferred shares, shareholder rights, warrants and debt securities in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we offer to sell securities under this shelf registration statement, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may add, update or change information contained in this prospectus. Before you buy any of our securities, it is important for you to consider the information contained in this prospectus and any prospectus supplement together with additional information described under the headings Where You Can Find More Information.

The SEC allows us to incorporate by reference information that is contained in certain reports and other documents that we file with them, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information.

Except where the context suggests otherwise, EFC, we, us and our refer to Ellington Financial LLC and its subsidiaries, including Ellington Financial Operating Partnership LLC, our operating partnership subsidiary, which we refer to as our Operating Partnership. We conduct all of our operations and business activities through our Operating Partnership. Our Manager refers to Ellington Financial Management LLC, our external manager, Ellington refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms, including our Manager, and Manager Group refers collectively to Ellington and its principals (including family trusts established by its principals) and entities in which 100% of the interests are beneficially owned by the foregoing. In certain instances, references to our Manager and services to be provided to us by our Manager may also include services provided by Ellington and its other affiliates from time to time.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus and in the documents incorporated by reference in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assured future results of our business, financial condition, liquidity, results of operations, cash flow and plans and objectives. When we use the words believe, expect, anticipate, estimate, project, plan, continue, should, would, could, goal, objective, will, may, seek, or similar expressions or their negative forms, or strategies, plans, or intentions, we intend to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such, may involve known and unknown risks, uncertainties, and assumptions.

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

difficult conditions in the mortgage and residential real estate markets;

the effect of the Federal Reserve s and the Treasury s actions and programs on the liquidity of the capital markets and the impact and timing of any further programs or regulations implemented by the U.S. government or its agencies;

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the federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac and Ginnie Mae and the U.S. government;

the impact of the downgrade of the long-term credit ratings of the United States, Fannie Mae, Freddie Mac and Ginnie Mae; increased prepayments of the mortgages and other loans underlying our Agency RMBS;

the volatility of our target markets and of the market value of our common shares;

increased rates of default and/or decreased recovery rates on our assets;

mortgage loan modification programs and future legislative action;

the degree to which our hedging strategies may or may not protect us from, or expose us to, credit or interest rate risk;

changes in our business and strategy;

availability, terms and deployment of capital;

our projected financial and operating results;

changes in interest rates and the market value of our securities;

our ability to maintain existing financing agreements, obtain future financing arrangements and the terms of such arrangements;

changes in economic conditions generally and the real estate and debt securities markets specifically;

legislative or regulatory changes (including tax law changes and changes to laws governing the regulation of investment companies);

availability of qualified personnel;

- changes in our industry;
- availability of investment opportunities;
- our estimated book value per common share;
- the degree and nature of our competition;
- changes to generally accepted accounting principles in the United States, or GAAP;
- market volatility;
- changes in the prepayment rates on the mortgage loans underlying our agency securities,
- increased rates of default and/or decreased recovery rates on our assets,
- our ability to borrow to finance our assets;
- changes in government regulations affecting our business;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended; and
- risks associated with investing in real estate assets, including changes in business conditions and the general economy.

These and other risks, uncertainties and other important factors identified, or incorporated by reference in this prospectus, including, but not limited to, those described under the caption Risk Factors in this prospectus, as well as those described under the captions Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market

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Risk in our most recent Annual Report on Form 10-K and in our subsequently filed Quarterly Reports on Form 10-Q and in the other documents incorporated by reference in this prospectus, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See Where You Can Find More Information below.

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ELLINGTON FINANCIAL LLC

Our Company

Ellington Financial LLC is a specialty finance company formed in August 2007 that specializes in acquiring and managing mortgage-related assets. Our primary objective is to generate attractive, risk-adjusted total returns for our shareholders by making investments that we believe compensate us appropriately for the risks associated with them. We seek to attain this objective by utilizing an opportunistic strategy. Our targeted assets currently include:

- residential mortgage-backed securities, or RMBS, backed by prime jumbo, Alternative A-paper, or Alt-A, manufactured housing, and subprime residential mortgage loans, collectively referred to as non-Agency RMBS ;
- RMBS for which the principal and interest payments are guaranteed by a U.S. Government agency or a U.S. Government-sponsored enterprise, or Agency RMBS ;
- residential mortgage loans;
- mortgage servicing rights, or MSRs;
- mortgage-related derivatives;
- commercial mortgage-backed securities, or CMBS, commercial mortgage loans and other commercial real estate debt;
- asset-backed securities, or ABS, backed by consumer and commercial assets; and
- corporate debt and equity securities and derivatives.

In addition, we may opportunistically acquire and manage other types of mortgage-related and financial assets, such as non-mortgage-related derivatives and real property. We may also invest in or acquire other institutions engaged in mortgage-related businesses, such as mortgage originators.

We believe that we have been organized and have operated so that we have qualified, and will continue to qualify, to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation.

Certain performance data with respect to the Company can be found on page 19.

Our Corporate Information

We were formed as a Delaware limited liability company in 2007. Our principal executive offices are located at 53 Forest Avenue, Old Greenwich, CT 06870. Our telephone number is (203) 409-3575. Our internet address is www.ellingtonfinancial.com. Our internet web site, and the information contained therein or connected thereto, does not constitute part of this prospectus. The books and records of our company and our Manager are maintained and made available for inspection at our principal executive offices.

Our Manager and Ellington

We are externally managed and advised by our Manager, an affiliate of Ellington, pursuant to a management agreement. Our Manager was formed solely to serve as our manager and does not have any other clients. In addition, our Manager currently does not have any employees and instead relies on the employees of Ellington to perform its obligations to us. Ellington is an investment management firm and registered investment advisor with a 19-year history of investing in a broad spectrum of mortgage-backed securities, or MBS, and related derivatives.

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The members of our management team include Michael Vranos, founder and Chief Executive Officer of Ellington, who serves as our Co-Chief Investment Officer and a member of our Board of Directors; Laurence Penn, Vice Chairman and Chief Operating Officer of Ellington, who serves as our Chief Executive Officer and President and a member of our Board of Directors; Mark Tecotzky, a Managing Director of Ellington, who serves as our Co-Chief Investment Officer; Lisa Mumford, who serves as our Chief Financial Officer; Daniel Margolis, General Counsel of Ellington, who serves as our General Counsel; and Jason Frank, Associate General Counsel of Ellington, who serves as our Secretary. Each of these individuals is an officer of our Manager. We currently do not have any employees.

Our Manager is responsible for administering our business activities and day-to-day operations and, pursuant to a services agreement between our Manager and Ellington, relies on the resources of Ellington to support our operations. Ellington has well-established portfolio management resources for each of our targeted asset classes and an established infrastructure supporting those resources. Through our relationship with our Manager, we benefit from Ellington s highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community, financial and capital structuring skills, investment surveillance database, and operational expertise. Ellington s analytic approach to the investment process involves collection of substantial amounts of data regarding historical performance of MBS and their underlying collateral, as well as MBS market transactions. Ellington analyzes this data to identify possible relationships and trends, and develops financial models used to support the investment and risk management process. In addition, throughout Ellington s 19-year history of investing in MBS and related derivatives, it has developed strong relationships with a wide range of dealers and other market participants that provide Ellington access to a broad range of trading opportunities and market information. As a result, our Manager is able to provide us with access to a wide variety of asset acquisition and disposition opportunities and information that assist us in making asset management decisions across our targeted asset classes, which we believe provides us with a significant competitive advantage. We also benefit from Ellington s finance, accounting, operational, legal, compliance, and administrative functions.

As of December 31, 2013, Ellington employed over 130 employees and had assets under management of approximately $5.6 billion, of which (i) approximately $4.5 billion was comprised of our company, Ellington Residential Mortgage REIT, a real estate investment trust (REIT) listed on the NYSE under the ticker EARN, various hedge funds and other alternative investment vehicles that employ financial leverage, and (ii) approximately $1.1 billion was comprised of accounts that do not employ financial leverage.

Our Manager, which was formed as a Delaware limited liability company in 2007, serves as our commodity pool operator (CPO) and has been registered with the U.S. Commodities Futures Trading Commission (CFTC) as a CPO and been a member of the NFA in such capacity since October 10, 2012. Our Manager s principal place of business is 53 Forest Avenue, Old Greenwich, Connecticut 06870, telephone number (203) 409-3575. The owners of our Manager are VC Investments L.L.C. (VC) and EMG Holdings L.P. (EMGH). VC and EMGH have been listed with the NFA as principals of our Manager since October 3, 2012. VC has been listed with the NFA as a principal of Ellington since March 14, 1996, and EMGH has been listed with the NFA as a principal of Ellington since May 6, 2008. The books and records of our Manager are maintained and made available for inspection at our Manager s principal executive offices.

Our Manager is currently operating the Company pursuant to the CPO operational exemption in CFTC Regulation 4.12(c).

Ellington serves as our commodity trading advisor (CTA) and has been registered with the CFTC as a CTA and been a member of the NFA in such capacity since March 14, 1996. Ellington s principal place of business is 53 Forest Avenue, Old Greenwich, Connecticut 06870, telephone number (203) 698-1200.

Michael W. Vranos, Laurence Penn and Mark Tecotzky are listed with the NFA as principals of our Manager and Ellington and make trading and investment decisions on behalf of the Company.

Our Manager and Ellington have certain other CFTC registered affiliates that are not involved in the company s operations. CII GP LLC (CIIGP) has been registered with the CFTC as a CPO and a swap firm and has been a member of the NFA in such capacities since January 1, 2013. ECOP GP LLC (ECOPGP) has been registered with the CFTC as a CPO since September 1, 2010 and as a swap firm since March 1, 2013 and has been a member of the NFA since September 1, 2010. Ellington Capital Holdings Quant I GP LLC (ECHQ) has been registered with the CFTC as a CPO and a swap firm and has been a member of the NFA since January 1, 2013. ESO MM LLC (ESOMM) has been registered with the CFTC as a CPO and swap firm and has been a member of the NFA since September 24, 2013. HJS MM LLC (HJSMM) has been registered with the CFTC as a CPO and swap firm and has been a member of the NFA since October 8, 2013.

The following persons serve in the capacities indicated on behalf of the Manager and/or Ellington:

Name/position at Ellington/our Manager	**Age**	**Background summary**
Michael W. Vranos *Founder & Chief Executive Officer of Ellington* *Chief Executive Officer and President of our Manager*	52	Mr. Vranos is the founder and Chief Executive Officer of Ellington, a position he has held since March 1995. Mr. Vranos is also the Chief Executive Officer and President of our Manager, positions he has held since August 2007, and serves on our Manager s investment and risk management committee. Mr. Vranos has been our Co-Chief Investment Officer since June 2009. Mr. Vranos has served as a member of our board of directors since August 2007, and from August 2007 until October 2009, Mr. Vranos served as our Chairman. Mr. Vranos also serves as Co-Chief Investment Officer and as a member of the Board of Trustees of Ellington Residential Mortgage REIT. Mr. Vranos founded Ellington in December of 1994 to capitalize on distressed conditions in the MBS derivatives market. Prior to December 1994, Mr. Vranos was a Senior Managing Director at Kidder, Peabody & Co. (Kidder Peabody) in charge of RMBS trading. Mr. Vranos graduated magna cum laude, Phi Beta Kappa with a B.A. in Mathematics from Harvard University. Mr. Vranos has been listed with the NFA as a principal of our Manager since October 3, 2012 and has been registered with the CFTC as an associated person and swap associated person of our Manager and been a member of the NFA in such capacities since October 10, 2012. He has been listed with the NFA as a principal of Ellington and has been registered with the CFTC as an associated person of

Ellington and been a member of the NFA in such capacity since March 14, 1996. He has been registered with the CFTC as a swap associated person of Ellington since October 10, 2012.

Additionally, Mr. Vranos is listed with the NFA as a principal of CIIGP since December 19, 2012

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Name/position at Ellington/our Manager	Age	Background summary
		and has been registered with the CFTC as an associated person and swap associated person of CIIGP and has been a member of the NFA with respect to CIIGP since January 1, 2013; Mr. Vranos is listed with the NFA as a principal of ECOPGP since September 20, 2010 and has been registered with the CFTC as an associated person since September 20, 2010 and swap associated person of ECOPGP since March 1, 2013 and been a member of the NFA with respect to ECOPGP since September 20, 2010; Mr. Vranos is listed with the NFA as a principal of ECHQ since December 19, 2012 and has been registered with the CFTC as an associated person and swap associated person of ECHQ and has been a member of the NFA with respect to ECHQ since January 1, 2013; Mr. Vranos is listed with the NFA as a principal of ESOMM and has been registered with the CFTC as an associated person and swap associated person of ESOMM and has been a member of the NFA with respect to ESOMM since September 11, 2013; and Mr. Vranos is listed with the NFA as a principal of HJSMM since October 2, 2013 and has been registered with the CFTC as an associated person and swap associated person of HJSMM and has been a member of the NFA with respect to HJSMM since October 8, 2013.
Laurence Penn *Vice Chairman of Ellington* *Executive Vice President of our Manager*	52	Mr. Penn has been our Chief Executive Officer and President and has served as a member of our board of directors since August 2007. Mr. Penn is also a Vice Chairman of Ellington, a position he has held since March 1995, where he helps oversee many functions of the firm. Mr. Penn is also the Executive Vice President of our Manager, a position he has held since August 2007, and serves on our Manager s investment and risk management committee. Mr. Penn also serves as President and Chief Executive Officer and as a member of the Board of Trustees of Ellington Residential Mortgage REIT. In Ellington s earlier years, Mr. Penn was the senior portfolio manager primarily responsible for investments in Agency RMBS. Prior to joining Ellington shortly after its inception, Mr. Penn was at Lehman Brothers Holdings, Inc. (Lehman Brothers) from November

1984 until March 1995, where he was most recently a Managing Director and co-head of CMO origination and trading. Mr. Penn began his career at Lehman Brothers in November 1984, after receiving a Master of Advanced Study in

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Name/position at Ellington/our Manager	Age	Background summary
		Mathematics from Cambridge University, where he studied as both a National Science Foundation and Winston Churchill Fellow. Mr. Penn graduated summa cum laude, Phi Beta Kappa with a B.A. in Mathematics from Harvard University in 1983. He was one of five winners nationwide in the 1980 Putnam collegiate mathematics problem solving competition, and represented the United States in the 21st International Mathematics Olympiad held in London, England.
		Mr. Penn has been listed with the NFA as a principal of our Manager since October 3, 2012 and has been registered with the CFTC as an associated person and swap associated person of our Manager and been a member of the NFA in such capacities since October 10, 2012. He has been listed with the NFA as a principal of Ellington and has been registered with the CFTC as an associated person of Ellington and been a member of the NFA in such capacity since March 14, 1996. He has been registered with the CFTC as a swap associated person of Ellington since October 10, 2012.
		Additionally, Mr. Penn is listed with the NFA as a principal of CIIGP since December 19, 2012 and has been registered with the CFTC as an associated person and swap associated person of CIIGP and has been a member of the NFA with respect to CIIGP since January 1, 2013; Mr. Penn is listed with the NFA as a principal of ECOPGP since September 20, 2010 and has been registered with the CFTC as an associated person since September 20, 2010 and swap associated person of ECOPGP since March 1, 2013 and been a member of the NFA with respect to ECOPGP since September 20, 2010; Mr. Penn is listed with the NFA as a principal of ECHQ since December 19, 2012 and has been registered with the CFTC as an associated person and swap associated person of ECHQ and has been a member of the NFA with respect to ECHQ since

January 1, 2013; Mr. Penn is listed with the NFA as a principal of ESOMM and has been registered with the CFTC as an associated person and swap associated person of ESOMM and has been a member of the NFA with respect to ESOMM since October 2, 2013; and Mr. Penn is listed with the NFA as a principal of HJSMM since October 2, 2013 and has been registered with the

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Name/position at Ellington/our Manager	Age	Background summary
		CFTC as an associated person and swap associated person of HJSMM and has been a member of the NFA with respect to HJSMM since October 8, 2013.
Mark Tecotzky *Managing Director of Ellington* *Co-Chief Investment Officer of our Manager*	52	Mr. Tecotzky is a Managing Director of Ellington, and head manager for all MBS/ABS credit, reporting directly to Mr. Vranos, positions he has held since July 2006. Mr. Tecotzky also serves as the Co-Chief Investment Officer of our Manager, a position he has held since March 2008, and serves on our Manager s investment and risk management committee. Mr. Tecotzky has been our Co-Chief Investment Officer since March 2008. Mr. Tecotzky also serves as Co-Chief Investment Officer of Ellington Residential Mortgage REIT. Prior to joining Ellington in July 2006, Mr. Tecotzky was the senior trader in the mortgage department at Credit Suisse Holdings USA, Inc. (Credit Suisse). He developed and launched several of its securitization vehicles, including hybrid ARMs and second liens, and subsequently ran its hybrid ARM business, including conduit pricing, servicing sales, monthly securitization, trading of Agency/non-Agency hybrids of all ratings categories and managing and hedging the residual portfolio. Prior to joining Credit Suisse, Mr. Tecotzky worked with Mr. Vranos and many of the other Ellington principals at Kidder Peabody, where he traded Agency and non-Agency pass-throughs and structured CMOs as a Managing Director. Mr. Tecotzky holds a B.S. from Yale University, and received a National Science Foundation fellowship to study at MIT. Mr. Tecotzky has been listed with the NFA as a principal of our Manager since October 18, 2012 and has been registered with the CFTC as an associated person and swap associated person of our Manager and been a member of the NFA in such capacities since October 18, 2012. He has been registered with the CFTC as an associated person of Ellington since November 30, 2009 and been a member of the NFA in such capacity since November 12, 2009.

Additionally, Mr. Tecotzky has been registered with the CFTC as an associated person and swap associated person of CIIGP and has been a member of the NFA with respect to CIIGP since January 1, 2013; Mr. Tecotzky has been registered

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Name/position at Ellington/our Manager	Age	Background summary
		with the CFTC as an associated person of ECOGP since September 1, 2010 and swap associated person of ECOPGP since March 1, 2013 and been a member of the NFA with respect to ECOPGP since September 1, 2010; Mr. Tecotzky has been registered with the CFTC as an associated person and swap associated person of ESOMM and has been a member of the NFA with respect to ESOMM since October 2, 2013; and Mr. Tecotzky has been registered with the CFTC as an associated person and swap associated person of HJSMM and has been a member of the NFA with respect to HJSMM since October 8, 2013.
Lisa Mumford *Chief Financial Officer of our Manager*	50	Ms. Mumford was appointed as our Chief Financial Officer and as the Chief Financial Officer of our Manager in October 2009. Ms. Mumford also serves as the Chief Financial Officer of Ellington Residential Mortgage REIT, a position she has held since April 2013. From August 2008 to October 2009, Ms. Mumford was Chief Financial Officer of ACA Financial Guaranty Corporation (ACA FG) where she oversaw all aspects of the finance and accounting operations. Prior to August 2008, ACA FG was an operating subsidiary of ACA Capital Holdings, Inc. (ACA) and from May 2004 until February 2008, Ms. Mumford served as the Chief Accounting Officer. While at ACA, Ms. Mumford oversaw all aspects of the accounting, internal control, and financial reporting process. Prior to joining ACA, and beginning in August 1988, Ms. Mumford was with ACE Guaranty Corp., where over her tenure, she held the positions of Chief Financial Officer and Controller. She began her career as a staff accountant with Coopers & Lybrand in September 1984, culminating in the role of Audit Supervisor at the time of her departure in July 1988. Ms. Mumford is a member of the American Institute of Certified Public Accountants and holds a B.B.A. in Accounting from Hofstra University. Ms. Mumford has been listed with the NFA as a principal of our Manager and has been registered with the CFTC as an associated person and swap associated person of our Manager and been a member of the NFA in such capacities since

October 18, 2012. She has been registered with the CFTC as an associated person of Ellington and has been a member of the NFA with respect to Ellington since October 15, 2012.

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Name/position at Ellington/our Manager	Age	Background summary
Daniel Margolis *General Counsel of Ellington* *Secretary of our Manager*	40	Mr. Margolis has been our General Counsel since August 2013 and also served as our Secretary and Secretary of our Manager from July 2010 to August 2013. Mr. Margolis is also General Counsel of Ellington Residential Mortgage REIT and Ellington s General Counsel, a position he has held since July 2010. He is responsible for advising Ellington on all legal, regulatory, compliance, documentation and litigation matters. Prior to joining Ellington, Mr. Margolis was a Partner at Pillsbury, Winthrop, Shaw, Pittman LLP from July 2007 to May 2010 and before that was a Junior Partner at Wilmer, Cutler, Pickering, Hale and Dorr LLP from June 2004 to July 2007. In both positions, Mr. Margolis represented corporations and individuals, including financial services organizations, in criminal and regulatory investigations and in complex civil litigation. From September 2000 to June 2004, he served as an Assistant United States Attorney in the United States Attorney s Office for the Southern District of New York where he prosecuted a variety of white collar crimes including securities fraud, investment fraud, tax fraud and money laundering. In July 2004, he received the John Marshall Award, the Department of Justice s highest award for excellence in legal performance. He has a J.D. from New York University Law School, where he graduated cum laude, and a B.A. from Binghamton University where he graduated magna cum laude with highest honors in Political Science and was a member of Phi Beta Kappa. Mr. Margolis is neither registered nor required to be registered with the CFTC and is not a member of the NFA in any capacity.
Richard Brounstein *Vice Chairman and Director of Investor Relations at Ellington*	54	Mr. Brounstein is a Vice Chairman and the Director of Investor Relations at Ellington, positions he has held since March 2001. Prior to joining Ellington in March 2001, Mr. Brounstein was the Managing Director responsible for the Fixed Income Securities division at Société Générale Securities Corporation, later renamed S.G. Cowen Securities Corporation. In this capacity, Mr. Brounstein was

responsible for supervising all aspects of risk management, market making, proprietary trading, distribution and finance related activities. In addition to his direct responsibilities for the Fixed Income Division, Mr. Brounstein was a member of the Risk Management committee at Société Générale

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Name/position at Ellington/our Manager	Age	Background summary
		Securities Corporation. Prior to joining Société Générale Securities Corporation, Mr. Brounstein was the Managing Director responsible for the Mortgage-Backed Securities Division at the Union Bank of Switzerland. Later he was given responsibilities for the supervision of distribution/placement of all Fixed Income Securities. Prior to joining the Union Bank of Switzerland, Mr. Brounstein worked with Mr. Vranos and other Ellington employees at Kidder Peabody. Mr. Brounstein received a M.A. from Columbia University and a B.A. from Fairleigh Dickinson University. Mr. Brounstein has been listed with the NFA as a principal of our Manager since October 3, 2012 and has been registered with the CFTC as an associated person and swap associated person of our Manager and been a member of the NFA in such capacity since October 10, 2012. He has been listed with the NFA as a principal of Ellington and has been registered with the CFTC as an associated person of Ellington since April 15, 2004 and has been a member of the NFA in such capacities since April 13, 2004. Additionally, Mr. Brounstein has been registered with the CFTC as an associated person and swap associated person of CIIGP and has been a member of the NFA with respect to CIIGP since January 1, 2013; Mr. Brounstein is listed with the NFA as a principal of ECOPGP since August 25, 2010 and has been registered with the CFTC as an associated person since September 1, 2010 and swap associated person of ECOPGP since March 1, 2013 and been a member of the NFA with respect to ECOPGP since September 1, 2010; Mr. Brounstein is listed with the NFA as a principal of ECHQ since December 19, 2012 and has been registered with the CFTC as an associated person and swap associated person of ECHQ and has been a member of the NFA with respect to ECHQ since January 1, 2013; Mr. Brounstein is listed with the NFA as a principal of ESOMM and has been registered with the CFTC as an associated person and swap associated person of ESOMM and has been a

member of the NFA with respect to ESOMM since October 2, 2013; and Mr. Brounstein is listed with the NFA as a principal of HJSMM since October 2, 2013 and has been registered

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Name/position at Ellington/our Manager	Age	Background summary
		with the CFTC as an associated person and swap associated person of HJSMM and has been a member of the NFA with respect to HJSMM since October 8, 2013.
John Geanakoplos *Managing Director of Ellington*	59	Professor Geanakoplos is a Managing Director at Ellington where he is the head of Research and Development, a position that he has held since March 1995, and is responsible for the design of computer models to evaluate and hedge the firm s portfolio. Professor Geanakoplos is largely responsible for the theoretical framework of Ellington s proprietary prepayment model and interest rate model. Prior to joining Ellington in March 1995, Professor Geanakoplos was a Managing Director of Kidder Peabody, where he was head of the Fixed Income Research Department. In this capacity, he led the design of the firm s proprietary MBS analytical systems. He became a full Professor at Yale University in 1986, at the age of 30, and is currently the James Tobin Professor of Economics and Director of the Cowles Foundation for Research in Economics. He was elected a fellow of the Econometric Society in 1990 and of the American Academy of Arts and Sciences in 1999. He was awarded the Samuelson Prize in 1999, and was awarded the first Bodossaki Prize in economics in 1995. In 1990 and again in 2000, he directed the economics program at the Santa Fe Institute, where he remains an external professor. Professor Geanakoplos graduated summa cum laude, Phi Beta Kappa with a B.A. in Mathematics from Yale University and received a M.A. in Mathematics and a Ph.D. in economics from Harvard University. Professor Geanakoplos is neither registered nor required to be registered with the CFTC and is not a member of the NFA in any capacity.
Peter Green *Managing Director of Ellington*	35	Mr. Green is a Managing Director at Ellington, a position he has held since January 2010. Mr. Green heads Ellington s Risk Management department, which helps monitor, measure, and manage liquidity, market, credit, operational, and other risks. Mr. Green also serves on our Manager s

investment and risk management committee. At Ellington, Mr. Green oversees the development of the firm s many risk management tools adapted to the particular needs of Ellington s

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Name/position at Ellington/our Manager	Age	Background summary
		investment strategies. Mr. Green began his career at Ellington in June 2005. Over his career at Ellington, Mr. Green has performed a wide variety of roles at the firm, including assisting in the development of Ellington s interest rate and RMBS credit models, formulating hedging strategies, supporting new business initiatives, and helping design many of the computer systems that support the firm s specific portfolio management and operational needs. Mr. Green holds a Ph.D. in Pure Mathematics from Harvard University and a B.Sc. from McGill University. Mr. Green is neither registered nor required to be registered with the CFTC and is not a member of the NFA in any capacity.
Vassilios Nikos Nicopoulos *Managing Director of Ellington*	52	Mr. Nicopoulos is a Managing Director at Ellington, a position he has held since January 2001, and is responsible for the mathematical modeling and computer implementation of Ellington s interest rate and hedging models, and their use in valuing, hedging and managing the risk of MBS. Mr. Nicopoulos joined Ellington from Oxford University in England, where he was an Assistant Professor in Theoretical Condensed Matter Physics from September 1993 to December 1997. His work focused on the complex behavior of interacting electronic systems. He has had extensive experience in the simulation and analysis of complex stochastic systems on workstations and supercomputers and has built an international reputation for research relevant to real-world physics problems. Mr. Nicopoulos graduated magna cum laude, Phi Beta Kappa with a B.A. in Physics from Harvard University, and also holds M.A. and Ph.D. degrees in Theoretical Physics from Princeton University. Prior to his position at Oxford, he was a researcher and consultant at Los Alamos National Laboratory. Mr. Nicopoulos is neither registered nor required to be registered with the CFTC and is not a member of the NFA in any capacity.
David Rice	44	Mr. Rice is Ellington s Chief Compliance Officer, a position he has held since July 2008, and chairs the

Chief Compliance Officer of Ellington and our Manager	firm s Compliance Committee. He is responsible for implementation of Ellington s compliance program. Mr. Rice is also Chief

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Name/position at Ellington/our Manager	Age	Background summary
		Compliance Officer of our Manager, a position he has held since October 2009. Prior to joining Ellington, he served as Associate General Counsel, Compliance at GSC Group Inc. from April 2007 to July 2008. From September 2002 to April 2007 he served in the Division of Enforcement at the Securities and Exchange Commission in Washington, D.C., where he worked on investigations involving hedge funds, broker-dealers, investment companies, and public and private companies. He has a J.D. from Yale Law School, a Ph.D. in English from the University of California, Irvine, and graduated Phi Beta Kappa, summa cum laude, with a B.A. in English and Philosophy from the University of Southern California. Mr. Rice has been listed with the NFA as a principal of our Manager since October 10, 2012. He has been listed with the NFA as a principal of Ellington since October 11, 2012. Additionally, Mr. Rice is listed with the NFA as a principal of CIIGP since May 31, 2013; Mr. Rice is listed with the NFA as a principal of ECOPGP since October 18, 2012; Mr. Rice is listed with the NFA as a principal of ECHQ since December 19, 2012; Mr. Rice is listed with the NFA as a principal of ESOMM since September 11, 2013; and Mr. Rice is listed with the NFA as a principal of HJSMM since October 2, 2013.
Nikolay Stoytchev *Managing Director of Ellington*	40	Mr. Stoytchev is a Managing Director and Senior Portfolio Manager of Ellington, positions he has held since January 2003, specializing in the trading and risk management of both Agency and non-Agency IOs, POs, IIOs and specified pools. Mr. Stoytchev started his career at Ellington by developing, together with Professor Geanakoplos, many of the firm s proprietary models, most notably Ellington s proprietary mortgage prepayment models. Mr. Stoytchev graduated summa cum laude from Yale University with a Bachelor of Arts in Applied Mathematics and Economics, With Distinction in both majors. His senior thesis, Value of Mortgage-Backed Securities, was written under the guidance of Professor Geanakoplos.

Mr. Stoytchev has been registered with the CFTC as an associated person of our Manager and been a

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Name/position at Ellington/our Manager	Age	Background summary
		member of the NFA in such capacity since December 21, 2012. He has been registered with the CFTC as an associated person of Ellington and been a member of the NFA in such capacity since December 14, 2009.
Robert Kinderman *Managing Director of Ellington*	38	Mr. Kinderman is a Managing Director at Ellington, a position he has held since June 2006, where he is responsible for trading credit-sensitive securities, including CMBS, ABS, and subordinated RMBS. Mr. Kinderman also serves on our Manager s investment and risk management committee. He started full-time with Ellington in June 1996, developing credit models as well as pieces of Ellington s proprietary portfolio management systems, and is currently the head trader for all credit-sensitive mortgage-backed and asset-backed investments at Ellington. He also helps direct the development of research, modeling and systems for credit-sensitive products. Mr. Kinderman earned a B.A. from Yale with distinction in Economics and in Mathematics. Mr. Kinderman has been registered with the CFTC as an associated person and swap associated person of our Manager and been a member of the NFA in such capacities since December 21, 2012. He has been registered with the CFTC as an associated person of Ellington since December 4, 2009 and been a member of the NFA in such capacity since December 4, 2009.
Paul Asaro *Chief Financial Officer of Ellington*	62	Mr. Asaro is the Chief Financial Officer of Ellington, a position he has held since February 2004, and as such is responsible for all accounting and financial reporting. Mr. Asaro has been with Ellington since June 1997. Mr. Asaro received his MBA in Finance from the University of Connecticut and his B.S. in Accounting from Manhattan College. He became a Certified Public Accountant in 1977 and is a member of the American Institute of Certified Public Accountants, or CPAs, and the Connecticut Society of CPAs. Mr. Asaro has been listed with the NFA as a principal of Ellington since May 6, 2004.

Additionally, Mr. Asaro is listed with the NFA as a principal of ECOPGP since August 25, 2010;

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Name/position at Ellington/our Manager	Age	Background summary
		Mr. Asaro is listed with the NFA as a principal of ECHQ since December 19, 2012; Mr. Asaro is listed with the NFA as a principal of ESOMM since September 11, 2013; and Mr. Asaro is listed with the NFA as a principal of HJSMM since October 2, 2013.
Olivier Cojot-Goldberg *Vice Chairman of Ellington*	49	Mr. Cojot-Goldberg is a Vice Chairman of Ellington, a position he has held since March 1995, where he helped develop Ellington s MBS/ABS credit capabilities and Ellington s structured products businesses. He currently focuses on business development efforts across the organization. Throughout his career, Mr. Cojot-Goldberg has specialized in structured products and in sectors that have fallen out of favor, and in newer, less well-understood asset classes. Prior to joining Ellington in December 1994, Mr. Cojot-Goldberg was the Managing Director in charge of whole loan-backed CMO origination and trading at Kidder Peabody, reporting directly to Mr. Vranos. Mr. Cojot-Goldberg began his career at Kidder Peabody after graduating seventh in his class from the California Institute of Technology in 1987 and receiving his Master of Science degree in Electrical Engineering from the same institution the following year. Mr. Cojot-Goldberg has been registered with the CFTC as an associated person and swap associated person of our Manager and been a member of the NFA in such capacities since December 21, 2012. He has been registered with the CFTC as an associated person of Ellington and been a member of the NFA in such capacities since March 14, 1996.

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BREAK-EVEN ANALYSIS PURSUANT TO SECTION 4.24 OF THE COMMODITY EXCHANGE ACT

The following break-even table indicates the approximate percentage and dollar returns required for the value of an initial $23.99 investment in a common share of our company to equal the amount originally invested twelve months after purchase. The initial investment in a common share of our company represents our diluted book value per share as of December 31, 2013. Diluted book value takes into account securities convertible into our common shares.

The break-even table, as presented, is an approximation only.

	Expenses of the Company	
	Dollar Amount	**Percentage**
Expense(1)		
Base management fee(2)	$ 0.36	1.5%
Incentive fee(3)		0.0%
Interest expense(4)	0.46	1.9%
Other operating expenses(5)	0.29	1.2%
Total expenses	1.11	4.6%
12-Month Break-Even	$ 1.11	4.6%

(1) The dollar amounts in the above break-even analysis are representative of actual expenses incurred by the Company, with the exception of incentive fees, based upon average common shares and convertible securities, or LTIPs, outstanding for the year ended December 31, 2013 and assumes comparable expenses for the year ending December 31, 2014. The Company earns interest on cash held in interest bearing overnight accounts, money market funds, and on margin deposits held with dealers as collateral. The Company currently expects that such interest income on cash deposits would have a de minimis impact on the break-even analysis provided above.

(2) The Company pays our Manager a base management fee quarterly in arrears in an amount equal to 1.50% per annum of equity as of the end of each fiscal quarter before deductions for base management fees and incentive fees payable with respect to such fiscal quarter.

(3) In addition to the base management fee, the Company s Manager is also entitled to a quarterly incentive fee that is only payable if the Company generates income in excess of a prescribed rate of return. See pages 80 and 81 for a description of the calculation of the incentive fee.

(4) The Company pays interest on funds borrowed under reverse repurchase agreements, securitized debt, coupon interest on securities sold short, and interest on counterparties cash collateral held by the Company. These amounts may vary depending upon the cost and amount of reverse repurchase agreements outstanding.

(5) The Company pays other operating expenses, including, but not limited to, compensation expense for dedicated and partially dedicated employees of the Manager, administrative fees and professional fees to its independent accountants and external legal counsel.

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HISTORICAL PERFORMANCE OF THE COMPANY PURSUANT TO SECTION 4.24 OF THE COMMODITY EXCHANGE ACT

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Name of CPO:	Ellington Financial Management LLC
Name of Commodity Pool:	Ellington Financial LLC
Type of Pool:	Public, Exchange-listed
Inception of Trading:	8/17/2007
Aggregate Gross Capital Subscriptions ($ in 000s)(1):	$564,518
Current Shareholders Equity as of 2/28/14 ($ in 000s):	$616,420
Cumulative Dividends ($ in 000s):	$265,693
Largest monthly draw-down(2):	-4.62% 10/31/2010
Worst peak-to-valley draw-down(3):	-4.62% 9/30/2010 through 10/31/2010

	Rate of Return(4)					
Month	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
January	1.91%	5.76%	2.26%	1.76%	2.21%	3.22%
February	0.54%	1.23%	3.42%	0.72%	0.28%	2.26%
March		0.76%	2.74%	0.14%	0.09%	2.41%
April		0.83%	1.10%	0.32%	1.58%	2.88%
May		1.52%	0.80%	-0.34%	0.06%	7.47%
June		-0.77%	0.75%	-0.35%	-0.13%	3.65%
July		0.09%	2.26%	-0.77%	0.48%	6.79%
August		1.01%	0.45%	0.47%	2.57%	3.06%
September		0.71%	1.49%	0.00%	2.44%	0.61%
October		1.74%	2.50%	-0.71%	-4.62%	3.73%
November		-0.01%	0.90%	0.95%	2.01%	-0.08%
December		0.61%	1.56%	0.25%	0.76%	0.77%
Year	2.46%	14.19%	22.16%	2.43%	7.79%	43.26%

(1) Aggregate gross capital subscriptions represent the proceeds from the Company s initial private and public offerings and are gross of placement fees, underwriters discounts, and other offering related costs as well as shares repurchased by the Company.

(2) Largest monthly draw-down represents the Company s largest negative monthly return on book value per share for any calendar month reported in the table above.

(3) Worst peak-to-valley draw-down represents the Company s largest percentage decline in book value per share for any multi- month interval contained in the period reported in the table above. This need not be a continuous decline, but can be a series of positive and negative returns where the negative returns are larger than the positive returns.

(4) Returns based on book value per share as of the end of each month reported above.

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RISK FACTORS

Investment in our securities involves significant risks. Before making an investment decision, you should carefully read and consider the risks discussed below and those set forth under the heading Risk Factors in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q incorporated by reference herein, as well as the other information contained or incorporated by reference in this prospectus or in any prospectus supplement hereto before making a decision to invest in our securities. See Where You Can Find More Information, below. If any of the risks described in this prospectus or any prospectus supplement hereto or incorporated by reference in this prospectus or any prospectus supplement hereto occurs, our business, financial condition or results of operations could be materially and adversely affected. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

Risks Related To Our Business

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

Our business is materially affected by conditions in the residential mortgage market, the residential real estate market, the financial markets, and the economy including inflation, energy costs, unemployment, geopolitical issues, concerns over the creditworthiness of governments worldwide and the stability of the global banking system. In particular, the residential mortgage markets in the U.S. and Europe have experienced a variety of difficulties and changed economic conditions in the recent past, including defaults, credit losses, and liquidity concerns. Certain commercial banks, investment banks, and insurance companies incurred extensive losses from exposure to the residential mortgage market as a result of these difficulties and conditions. These factors have impacted investor perception of the risks associated with RMBS, other real estate-related securities and various other asset classes in which we may invest. As a result, values for RMBS, other real estate-related securities and various other asset classes in which we may invest have experienced, and may in the future experience, significant volatility.

In the aftermath of the financial crisis, homeowner access to residential mortgage loans has been substantially limited. Lending standards are significantly more stringent than in past periods, and access to many mortgage products has been severely curtailed or eliminated. This financing limitation has had an impact on new demand for homes, has lowered homeownership rates and impacted home price performance. There is a strong correlation between home price depreciation and mortgage loan delinquencies. Any deterioration of the mortgage market and investor perception of the risks associated with RMBS, residential mortgage loans, real estate-related securities, and various other assets that we acquire could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac, and Ginnie Mae and the U.S. Government, may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

The payments we receive on our Agency RMBS depend upon a steady stream of payments on the underlying mortgages and such payments are guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae. Fannie Mae and Freddie Mac are government-sponsored enterprises, or GSEs, but their guarantees are not backed by the full faith and credit of the United States. Ginnie Mae, which guarantees MBS backed by federally insured or guaranteed loans primarily consisting of loans insured by the Federal Housing Administration, or FHA, or guaranteed by the Department of Veterans Affairs, or VA, is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the United States.

During 2008, there were increased market concerns about Fannie Mae s and Freddie Mac s ability to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees, without the direct support of the U.S. Government. In September 2008, Fannie Mae and Freddie Mac were placed into the conservatorship of the Federal Housing Finance Agency, or FHFA, their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008. Under this conservatorship, Fannie Mae and Freddie Mac are required to reduce the amount of mortgage loans they own or for which they provide guarantees on Agency RMBS.

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury noted that the guarantee structure of Fannie Mae and Freddie Mac required examination and that changes in the structures of the entities were necessary to reduce risk to the financial system. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be considerably limited relative to historical measurements or even eliminated. The U.S. Treasury could also stop providing financial support for Fannie Mae and Freddie Mac in the future. The substantial financial assistance provided by the U.S. Government to Fannie Mae and Freddie Mac, especially in the course of their being placed into conservatorship and thereafter, together with the substantial financial assistance provided by the U.S. Government to the mortgage-related operations of other GSEs and government agencies, such as the FHA, VA, and Ginnie Mae, has stirred debate among many federal policymakers over the continued role of the U.S. Government in providing such financial support for the mortgage-related GSEs in particular, and for the mortgage and housing markets in general. In fact, in February 2011, the U.S. Treasury released a white paper entitled Reforming America s Housing Finance Market in which the U.S. Treasury outlined three possible options for reforming the U.S. Government s role in housing finance. Under each option, the role of the U.S. Government in the mortgage market would be reduced. On February 21, 2012, the FHFA released its Strategic Plan for Enterprise Conservatorships, which set forth three goals for the next phase of the Fannie Mae and Freddie Mac conservatorships. These three goals are to (i) build a new infrastructure for the secondary mortgage market, (ii) gradually reduce Fannie Mae and Freddie Mac s presence in the marketplace while simplifying and shrinking their operations, and (iii) maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. In March 2013, the FHFA announced that it was creating a new entity as it reduces the roles of Fannie Mae and Freddie Mac that may serve as a foundational element of the mortgage market in the future. Since the FHFA first released its strategic plan, there have been a number of other proposals introduced, both from industry groups and by the U.S. Congress. The most recent bill in the U.S. Congress to receive serious consideration is the Housing Finance Reform and Taxpayer Protection Act of 2013. This draft bill, among other things, would eliminate Freddie Mac and Fannie Mae and replace them with a new agency which would provide a financial guarantee that would only be tapped after private institutions and investors stepped in. It remains unclear whether this or any other proposals will become law or, should a proposal become law, if or how the enacted law will differ from the current draft of the bill.

As discussed above, Fannie Mae, Freddie Mac, and Ginnie Mae could each be dissolved and the U.S. Government could determine to stop providing liquidity support of any kind to the mortgage market. If Fannie Mae, Freddie Mac, or Ginnie Mae were eliminated, or their structures were to change radically or the U.S. Government significantly reduced its support for any or all of them, we may be unable or significantly limited in our ability to acquire Agency RMBS, which would drastically reduce the amount and type of Agency RMBS available for purchase which, in turn, could materially adversely affect our ability to maintain our exclusion from regulation as an investment company under the Investment Company Act. Moreover, any changes to the nature of the guarantees provided by, or laws affecting, Fannie Mae, Freddie Mac, and Ginnie Mae could materially adversely affect the credit quality of the guarantees, could increase the risk of loss on purchases of Agency RMBS issued by these GSEs and could have broad adverse market implications for the Agency RMBS they currently guarantee. Any action that affects the credit quality of the guarantees provided by Fannie Mae, Freddie Mac, and Ginnie Mae could materially adversely affect the value of our Agency RMBS.

In addition, we rely on our Agency RMBS as collateral for our financings under the reverse repurchase agreements, or reverse repos, that we enter into. Any decline in their value, or perceived market uncertainty

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about their value, would make it more difficult for us to obtain financing on our Agency RMBS on acceptable terms or at all, or to maintain compliance with the terms of any financing transactions.

Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our targeted assets.

The U.S. Government, through the U.S. Treasury, FHA, and the Federal Deposit Insurance Corporation, or FDIC, commenced implementation of programs designed to provide homeowners with assistance in avoiding mortgage loan foreclosures, including the Home Affordable Modification Program, or HAMP, which provides homeowners with assistance in mortgage loan foreclosures, the Hope for Homeowners Program, which allows certain distressed borrowers to refinance their mortgages into FHA-insured loans in order to avoid mortgage loan foreclosures, and the Home Affordable Refinance Program, or HARP, which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments at loan-to-value ratios up to 125% without new mortgage insurance. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans.

Loan modification and refinance programs may adversely affect the performance of Agency and non-Agency RMBS. In the case of non-Agency RMBS, a significant number of loan modifications with respect to a given security, including those related to principal forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such security. In addition, it is also likely that loan modifications would result in increased prepayments on some RMBS. See Prepayment rates can change, adversely affecting the performance of our assets, below.

The U.S. Congress and various state and local legislatures are considering, and in the future may consider, mortgage-related legislation that would affect our business, including legislation that would permit limited assignee liability for certain violations in the mortgage loan origination process, and legislation that would allow judicial modification of loan principal in the event of personal bankruptcy. We cannot predict whether or in what form Congress or the various state and local legislatures may enact legislation affecting our business or whether any such legislation will require us to change our practices or make changes in our portfolio in the future. These changes, if required, could materially adversely affect our business, results of operations and financial condition, and our ability to pay dividends to our shareholders, particularly if we make such changes in response to new or amended laws, regulations or ordinances in any state where we acquire a significant portion of our mortgage loans, or if such changes result in us being held responsible for any violations in the mortgage loan origination process.

The existing loan modification programs, together with future legislative or regulatory actions, including possible amendments to the bankruptcy laws, which result in the modification of outstanding residential mortgage loans and/or changes in the requirements necessary to qualify for refinancing mortgage loans with Fannie Mae, Freddie Mac, or Ginnie Mae, may adversely affect the value of, and the returns on, our assets, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

The principal and interest payments on our non-Agency RMBS are not guaranteed by any entity, including any government entity or GSE, and therefore are subject to increased risks, including credit risk.

Our portfolio includes non-Agency RMBS which are backed by residential mortgage loans that do not conform to the Fannie Mae or Freddie Mac underwriting guidelines, including subprime, manufactured housing, Alt-A, and prime jumbo mortgage loans. Consequently, the principal and interest on non-Agency RMBS, unlike those on Agency RMBS, are not guaranteed by GSEs such as Fannie Mae and Freddie Mac or, in the case of Ginnie Mae, the U.S. Government.

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

In the event of defaults under mortgage loans backing any of our non-Agency RMBS, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan. Additionally, in the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan. If borrowers default on the mortgage loans backing our non-Agency RMBS and we are unable to recover any resulting loss through the foreclosure process, our business, financial condition and results of operations, and our ability to pay dividends to our shareholders could be materially adversely affected.

Less stringent underwriting guidelines and the resultant potential for delinquencies or defaults on certain mortgage loans could lead to losses on many of the non-Agency RMBS we hold.

Many, if not most, of the non-Agency RMBS in which we invest are collateralized by Alt-A and subprime mortgage loans, which are mortgage loans that were originated using less stringent underwriting guidelines than those used in underwriting prime mortgage loans (mortgage loans that generally conform to Fannie Mae or Freddie Mac underwriting guidelines). These underwriting guidelines were more permissive as to borrower credit history or credit score, borrower debt-to-income ratio, loan-to-value ratio, and/or as to documentation (such as whether and to what extent borrower income was required to be disclosed or verified). In addition, even when specific underwriting guidelines were represented by loan originators as having been used in connection with the origination of mortgage loans, these guidelines were in many cases not followed as a result of aggressive lending practices, fraud (including borrower or appraisal fraud), or other factors. Mortgage loans that were underwritten pursuant to less stringent or looser underwriting guidelines, or that were poorly underwritten to their stated guidelines, have experienced, and should be expected to experience in the future, substantially higher rates of delinquencies, defaults, and foreclosures than those experienced by mortgage loans that were underwritten in a manner more consistent with Fannie Mae or Freddie Mac guidelines. Thus, because of the higher delinquency rates and losses associated with Alt-A and subprime mortgage loans, the performance of RMBS backed by Alt-A and subprime mortgage loans that we may acquire could be correspondingly adversely affected, which could adversely impact our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. Such models and other data may be incorrect, misleading or incomplete, which could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy.

Our Manager relies on the analytical models (both proprietary and third-party models) of Ellington and information and data supplied by third parties. These models and data may be used to value assets or potential asset acquisitions and dispositions and also in connection with our asset management activities. If Ellington s models and data prove to be incorrect, misleading, or incomplete, any decisions made in reliance thereon could expose us to potential risks. Our Manager s reliance on Ellington s models and data may induce it to purchase certain assets at prices that are too high, to sell certain other assets at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging activities that are based on faulty models and data may prove to be unsuccessful.

Some of the risks of relying on analytical models and third-party data include the following:

- collateral cash flows and/or liability structures may be incorrectly modeled in all or only certain scenarios, or may be modeled based on simplifying assumptions that lead to errors;

- information about collateral may be incorrect, incomplete, or misleading;

- collateral or RMBS historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported, or subject to interpretation (e.g. different RMBS issuers may report delinquency statistics based on different definitions of what constitutes a delinquent loan); and

- collateral or RMBS information may be outdated, in which case the models may contain incorrect assumptions as to what has occurred since the date information was last updated.

Some models, such as prepayment models or mortgage default models, may be predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses. In addition, the predictive models used by our Manager may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain assets than actual market prices. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data, and, in the case of predicting performance in scenarios with little or no historical precedent (such as extreme broad-based declines in home prices, or deep economic recessions or depressions), such models must employ greater degrees of extrapolation and are therefore more speculative and of more limited reliability.

All valuation models rely on correct market data inputs. If incorrect market data is entered into even a well-founded valuation model, the resulting valuations will be incorrect. However, even if market data is input correctly, model prices will often differ substantially from market prices, especially for securities with complex characteristics or whose values are particularly sensitive to various factors. If our market data inputs are incorrect or our model prices differ substantially from market prices, our business, financial condition and results of operations, and our ability to pay dividends to our shareholders could be materially adversely affected.

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

The values of some of the assets in our portfolio are not readily determinable. We value these assets quarterly at fair value, as determined in good faith by our Manager, subject to the oversight of our Manager s valuation committee. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our Manager s determinations of fair value may differ from the values that would have been used if a ready market for these assets existed or from the prices at which trades occur. Furthermore, we may not obtain third-party valuations for all of our assets. Changes in the fair value of our assets directly impact our net income through recording unrealized appreciation or depreciation of our investments and derivative instruments, and so our Manager s determination of fair value has a material impact on our net income.

While in many cases our Manager s determination of the fair value of our assets is based on valuations provided by third-party dealers and pricing services, our Manager can and does value assets based upon its judgment and such valuations may differ from those provided by third-party dealers and pricing services. Valuations of certain assets are often difficult to obtain or are unreliable. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental, or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. Higher valuations of our assets have the effect of increasing the amount of base management fees and incentive fees we pay to our Manager. Therefore, conflicts of interest exist because our Manager is involved in the determination of the fair value of our assets.

Our business, financial condition and results of operations, and our ability to pay dividends to our shareholders could be materially adversely affected if our Manager s fair value determinations of these assets were materially different from the values that would exist if a ready market existed for these assets.

We depend on third-party service providers, including mortgage servicers, for a variety of services related to our non-Agency RMBS and whole mortgage loan pools. We are, therefore, subject to the risks associated with third-party service providers.

We depend on a variety of services provided by third-party service providers related to our non-Agency RMBS and whole mortgage loan pools. We rely on the mortgage servicers who service the mortgage loans backing our non-Agency RMBS as well as the mortgage loan pools that we own directly, to, among other things, collect principal and interest payments on the underlying mortgages and perform loss mitigation services. These mortgage servicers and other service providers to our non-Agency RMBS, such as trustees, bond insurance providers, and custodians, may not perform in a manner that promotes our interests. In addition, legislation that has been enacted or that may be enacted in order to reduce or prevent foreclosures through, among other things, loan modifications may reduce the value of mortgage loans backing our non-Agency RMBS or whole mortgage loans that we acquire. Mortgage servicers may be incentivized by the U.S. Government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgage loans. In addition to legislation that creates financial incentives for mortgage loan servicers to modify loans and take other actions that are intended to prevent foreclosures, legislation has also been adopted that creates a safe harbor from liability to creditors for servicers that undertake loan modifications and other actions that are intended to prevent foreclosures. Finally, recent laws delay the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans or otherwise limit the ability of mortgage servicers to take actions that may be essential to preserve the value of the mortgage loans underlying the mortgage servicing rights. Any such limitations are likely to cause delayed or reduced collections from mortgagors and generally increase servicing costs. As a result of these legislative actions, the mortgage loan servicers on which we rely may not perform in our best interests or up to our expectations. If our third-party service providers, including mortgage servicers, do not perform as expected, our business, financial condition and results of operations, and ability to pay dividends to our shareholders may be materially adversely affected.

We rely on mortgage servicers for our loss mitigation efforts, and we also may engage in our own loss mitigation efforts with respect to whole mortgage loans that we own directly. Such loss mitigation efforts may be unsuccessful or not cost effective.

Both default frequency and default severity of mortgage loans are highly dependent on the quality of the mortgage servicer. We depend on the loss mitigation efforts of mortgage servicers and in some cases special servicers, which are mortgage servicers who specialize in servicing non-performing loans. If mortgage servicers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers are far less likely to make those payments. In addition, for the whole mortgage loans that we own directly, we may engage in our own loss mitigation efforts over and beyond the efforts of the mortgage servicers, including more hands-on mortgage servicer oversight and management, borrower refinancing solicitations, as well as other efforts. Our and our mortgage servicers loss mitigation efforts may be unsuccessful in limiting delinquencies, defaults, and losses, or may not be cost effective, which may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

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

One of the biggest risks overhanging the RMBS market has been uncertainty around the timing and ability of servicers to foreclose on defaulted loans, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to RMBS holders. Given the magnitude of the housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures (such as involving robo-signing), mortgage servicers are being held to much higher foreclosure-related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures) throughout the origination, warehouse, and securitization processes, mortgage servicers are generally having much more difficulty furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure-related costs. Foreclosure-related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside of a servicer s control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non-judicial states. The extension of foreclosure timelines also increases the inventory backlog of distressed homes on the market and creates greater uncertainty about housing prices. The concerns about deficiencies in foreclosure practices of servicers and related delays in the foreclosure process may impact our loss assumptions and affect the values of, and our returns on, our investments in RMBS and residential whole loans.

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

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

Sellers of the mortgage loans that underlie the non-Agency RMBS in which we invest may be unable to repurchase defective mortgage loans, which could have a material adverse effect on the value of the loans held by the trust that issued the RMBS and could cause shortfalls in the payments due on the RMBS.

Sellers of mortgage loans to the trusts that issued the non-Agency RMBS in which we invest made various representations and warranties related to the mortgage loans sold by them to the trusts that issued the RMBS. If a seller fails to cure a material breach of its representations and warranties with respect to any mortgage loan in a timely manner, then the trustee or the servicer of the loans may have the right to require that the seller repurchase the defective mortgage loan (or in some cases substitute a performing mortgage loan). It is possible, however, that for financial or other reasons, the seller either may not be capable of repurchasing defective mortgage loans, or may dispute the validity of or otherwise resist its obligation to repurchase defective mortgage loans. The inability or unwillingness of a seller to repurchase defective mortgage loans from a non-Agency RMBS trust in which we invest would likely cause higher rates of delinquencies, defaults, and losses for the mortgage loans backing such non-Agency RMBS, and ultimately greater losses for our investment in such non-Agency RMBS.

Our assets include subordinated and lower-rated securities that generally have greater risk of loss than senior and higher-rated securities.

Certain securities that we acquire are deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other securities we acquire have the lowest quality ratings or are unrated.

Many securities that we acquire are subordinated in cash flow priority to other more senior securities of the same securitization. The exposure to defaults on the underlying mortgages is severely magnified in subordinated securities. Certain subordinated securities (first loss securities) absorb all losses from default before any other class of securities is at risk. Such securities therefore are considered to be highly speculative investments. Also, the risk of declining real estate values, in particular, is amplified in subordinated RMBS, as are the risks associated with possible changes in the market s perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies. Accordingly, these securities may experience significant price and performance volatility relative to more senior securities and they are subject to greater risk of loss than more senior securities which, if realized, could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

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

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

Prepayment rates can change, adversely affecting the performance of our assets.

The frequency at which prepayments (including both voluntary prepayments by borrowers and liquidations due to defaults and foreclosures) occur on mortgage loans underlying RMBS is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. Many of the mortgage loans underlying our existing RMBS were originated in a relatively higher interest rate environment than currently in effect and, therefore, could be prepaid if borrowers are eligible for refinancing. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, it results in prepayments that are faster or slower than expected on the related RMBS. These faster or slower than expected payments may adversely affect our profitability.

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

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

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise. Since many RMBS, especially fixed rate RMBS, will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these RMBS may be adversely affected by changes in prepayments in any interest rate environment. Prepayment rates are also affected by factors not directly tied to interest rates, and are difficult to predict. Prepayments can also occur when borrowers sell their properties or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the underlying property and/or from the proceeds of a mortgage insurance policy or other guarantee. Fannie

Mae and Freddie Mac will generally, among other conditions, purchase mortgages that are 120 days or more delinquent from the Agency RMBS pools that they have issued when the cost of guaranteed payments to security holders, including advances of interest at the security coupon rate, exceeds the cost of holding the non-performing loans in their portfolios. Consequently, prepayment rates also may be affected by conditions in the housing and financial markets, which may result in increased delinquencies on mortgage loans. Prepayment rates can also be affected by actions of the GSEs and their cost of capital, general economic conditions, and the relative interest rates on fixed and adjustable rate loans. Additionally, changes in the GSEs decisions as to when to repurchase delinquent loans can materially impact prepayment rates on Agency RMBS.

The adverse effects of prepayments may impact us in various ways. First, particular investments may experience outright losses, as in the case of interest only securities, or IOs, and invers interest only securities, or IIOs, in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to any hedges that our Manager may have constructed for these assets, resulting in a loss to us. In particular, prepayments (at par) may limit the potential upside of many RMBS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. Furthermore, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets, which may reduce our income in the long run. Therefore, if actual prepayment rates differ from anticipated prepayment rates our business, financial condition and results of operations, and ability to pay dividends to our shareholders could be materially adversely affected.

Increases in interest rates could negatively affect the value of our assets and increase the risk of default on our assets.

Our RMBS investments, especially most fixed rate RMBS and most RMBS backed by fixed rate mortgage loans, decline in value when long-term interest rates increase. Even in the case of Agency RMBS, the guarantees provided by GSEs do not protect us from declines in market value caused by changes in interest rates. In the case of RMBS backed by adjustable-rate residential mortgage loans, or ARMs, increases in interest rates can lead to increases in delinquencies and defaults as borrowers become less able to make their mortgage payments following interest payment resets. Additionally, an increase in short-term interest rates would increase the amount of interest owed on our reverse repo borrowings. See Interest rate mismatches between our assets and any borrowings used to fund purchases of our assets may reduce our income during periods of changing interest rates.

An increase in interest rates may cause a decrease in the issuance volumes of certain of our targeted assets, which could adversely affect our ability to acquire targeted assets that satisfy our investment objectives and to generate income and pay dividends.

Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of targeted assets available to us, which could adversely affect our ability to acquire assets that satisfy our investment objectives. If rising interest rates cause us to be unable to acquire a sufficient volume of our targeted assets with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to generate income and pay dividends to our shareholders may be materially and adversely affected.

Interest rate caps on the ARMs and hybrid ARMs that back our RMBS may reduce our net interest margin during periods of rising interest rates.

ARMs and hybrid ARMs are typically subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through the maturity of the loan. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, our financing costs could increase without limitation while caps could limit the interest we earn on our RMBS backed by ARMs and

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hybrid ARMs. This problem is magnified for ARMs and hybrid ARMs that are not fully indexed because such periodic interest rate caps prevent the coupon on the security from fully reaching the specified rate in one reset. Further, some ARMs and hybrid ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we may receive less cash income on RMBS backed by ARMs and hybrid ARMs than necessary to pay interest on our related borrowings. Interest rate caps on RMBS backed by ARMs and hybrid ARMs could reduce our net interest margin if interest rates were to increase beyond the level of the caps, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

Residential mortgage loans, including subprime, non-performing, and sub-performing residential mortgage loans, are subject to increased risks.

We acquire and manage residential mortgage loans. Residential mortgage loans, including subprime, non-performing, and sub-performing mortgage loans, are subject to increased risk of loss. Unlike Agency RMBS, residential mortgage loans generally are not guaranteed by the U.S. Government or any GSE, though in some cases they may benefit from private mortgage insurance. Additionally, by directly acquiring residential mortgage loans, we do not receive the structural credit enhancements that benefit senior tranches of RMBS. A residential whole mortgage loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower, and the priority and enforceability of the lien will significantly impact the value of such mortgage loan. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses.

Residential mortgage loans are also subject to property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies, or special hazard risk, and to reduction in a borrower s mortgage debt by a bankruptcy court, or bankruptcy risk. In addition, claims may be assessed against us on account of our position as a mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards, and other liabilities. In some cases, these liabilities may be recourse liabilities or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

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

If we subsequently resell any whole mortgage loans that we acquire, we would generally be required to make customary representations and warranties about such loans to the loan purchaser. Our residential mortgage loan sale agreements and terms of any securitizations into which we sell loans will generally require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against an originating broker or correspondent. Repurchased loans are typically worth only a fraction of the original price. Significant repurchase activity could materially adversely affect our business, financial condition and results of ope