

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

**FORM 10-Q**

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

**For the Quarterly Period Ended: June 30, 2022**

**OR**

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

**Commission File Number 001-34506**

**TWO HARBORS INVESTMENT CORP.**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**

(State or Other Jurisdiction of  
Incorporation or Organization)

**27-0312904**

(I.R.S. Employer  
Identification No.)

**1601 Utica Avenue South, Suite 900**

**St. Louis Park, Minnesota**

(Address of Principal Executive Offices)

**55416**

(Zip Code)

**(612) 453-4100**

(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

<b>Title of Each Class:</b>	<b>Trading Symbol(s)</b>	<b>Name of Exchange on Which Registered:</b>
Common Stock, par value \$0.01 per share	TWO	New York Stock Exchange
8.125% Series A Cumulative Redeemable Preferred Stock	TWO PRA	New York Stock Exchange
7.625% Series B Cumulative Redeemable Preferred Stock	TWO PRB	New York Stock Exchange
7.25% Series C Cumulative Redeemable Preferred Stock	TWO PRC	New York Stock Exchange

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

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

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

<input checked="" type="checkbox"/> Large accelerated filer	<input type="checkbox"/> Accelerated filer	<input type="checkbox"/>
<input type="checkbox"/> Non-accelerated filer	<input type="checkbox"/> Smaller reporting company	<input type="checkbox"/>
	<input type="checkbox"/> Emerging growth company	<input type="checkbox"/>

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

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

As of August 2, 2022, there were 344,441,136 shares of outstanding common stock, par value \$0.01 per share, issued and outstanding.

## TWO HARBORS INVESTMENT CORP.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**TWO HARBORS INVESTMENT CORP.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	June 30, 2022 (unaudited)	December 31, 2021
<b>ASSETS</b>		
Available-for-sale securities, at fair value (amortized cost \$8,969,612 and \$7,005,013, respectively; allowance for credit losses \$9,663 and \$14,238, respectively)	\$ 8,789,437	\$ 7,161,703
Mortgage servicing rights, at fair value	3,226,191	2,191,578
Cash and cash equivalents	511,889	1,153,856
Restricted cash	627,725	934,814
Accrued interest receivable	30,254	26,266
Due from counterparties	186,156	168,449
Derivative assets, at fair value	29,330	80,134
Reverse repurchase agreements	158,971	134,682
Other assets	177,497	262,823
<b>Total Assets <sup>(1)</sup></b>	<b>\$ 13,737,450</b>	<b>\$ 12,114,305</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Repurchase agreements	\$ 7,958,247	\$ 7,656,445
Revolving credit facilities	825,761	420,761
Term notes payable	397,383	396,776
Convertible senior notes	281,711	424,827
Derivative liabilities, at fair value	110,764	53,658
Due to counterparties	1,460,561	196,627
Dividends payable	72,591	72,412
Accrued interest payable	21,826	18,382
Commitments and contingencies (see Note 15)	—	—
Other liabilities	124,982	130,464
<b>Total Liabilities <sup>(1)</sup></b>	<b>11,253,826</b>	<b>9,370,352</b>
<b>Stockholders' Equity:</b>		
Preferred stock, par value \$0.01 per share; 100,000,000 shares authorized and 29,050,000 shares issued and outstanding (\$726,250 liquidation preference)	702,550	702,550
Common stock, par value \$0.01 per share; 700,000,000 shares authorized and 344,433,109 and 343,911,324 shares issued and outstanding, respectively	3,444	3,439
Additional paid-in capital	5,633,201	5,625,179
Accumulated other comprehensive (loss) income	(149,710)	186,346
Cumulative earnings	1,425,833	1,212,983
Cumulative distributions to stockholders	(5,131,694)	(4,986,544)
<b>Total Stockholders' Equity</b>	<b>2,483,624</b>	<b>2,743,953</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 13,737,450</b>	<b>\$ 12,114,305</b>

(1) The condensed consolidated balance sheets include assets and liabilities of consolidated variable interest entities, or VIEs. At June 30, 2022 and December 31, 2021, assets of the VIEs totaled \$449,853 and \$454,596, and liabilities of the VIEs totaled \$444,934 and \$440,030, respectively. See Note 3 - *Variable Interest Entities* for additional information.

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**TWO HARBORS INVESTMENT CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)**  
(in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Interest income:</b>				
Available-for-sale securities	\$ 55,399	\$ 43,092	\$ 100,046	\$ 98,744
Other	1,604	351	1,803	808
Total interest income	<u>57,003</u>	<u>43,443</u>	<u>101,849</u>	<u>99,552</u>
<b>Interest expense:</b>				
Repurchase agreements	19,269	6,981	27,612	15,451
Revolving credit facilities	9,106	7,075	14,782	11,770
Term notes payable	3,925	3,225	7,181	6,436
Convertible senior notes	4,801	7,126	9,843	13,476
Total interest expense	<u>37,101</u>	<u>24,407</u>	<u>59,418</u>	<u>47,133</u>
Net interest income	19,902	19,036	42,431	52,419
<b>Other (loss) income:</b>				
(Loss) gain on investment securities	(197,719)	(41,519)	(250,061)	91,349
Servicing income	157,526	112,816	294,152	219,935
Gain (loss) on servicing asset	85,557	(268,051)	496,181	59,387
Gain (loss) on interest rate swap and swaption agreements	32,734	24,648	(5,307)	9,049
(Loss) gain on other derivative instruments	(101,273)	51,312	(203,035)	(224,699)
Other (loss) income	(73)	41	(117)	(5,701)
Total other (loss) income	<u>(23,248)</u>	<u>(120,753)</u>	<u>331,813</u>	<u>149,320</u>
<b>Expenses:</b>				
Servicing expenses	22,991	18,680	47,695	43,627
Compensation and benefits	11,019	11,259	23,212	19,447
Other operating expenses	9,152	7,218	15,777	14,705
Total expenses	<u>43,162</u>	<u>37,157</u>	<u>86,684</u>	<u>77,779</u>
<b>(Loss) income before income taxes</b>				
(Loss) income before income taxes	(46,508)	(138,874)	287,560	123,960
Provision for (benefit from) income taxes	25,912	(20,914)	74,710	1,763
Net (loss) income	<u>(72,420)</u>	<u>(117,960)</u>	<u>212,850</u>	<u>122,197</u>
Dividends on preferred stock	13,748	13,747	27,495	30,963
<b>Net (loss) income attributable to common stockholders</b>				
Basic (loss) earnings per weighted average common share	\$ (86,168)	\$ (131,707)	\$ 185,355	\$ 91,234
Diluted (loss) earnings per weighted average common share	\$ (0.25)	\$ (0.48)	\$ 0.54	\$ 0.33
Dividends declared per common share	\$ (0.25)	\$ (0.48)	\$ 0.51	\$ 0.32
Weighted average number of shares of common stock:				
Basic	344,277,723	273,718,561	344,138,889	273,714,684
Diluted	<u>344,277,723</u>	<u>273,718,561</u>	<u>344,138,889</u>	<u>273,714,684</u>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**TWO HARBORS INVESTMENT CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited), continued**  
(in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Comprehensive loss:</b>				
Net (loss) income	\$ (72,420)	\$ (117,960)	\$ 212,850	\$ 122,197
<b>Other comprehensive loss, net of tax:</b>				
Unrealized loss on available-for-sale securities	(4,211)	(62,899)	(336,056)	(334,352)
Other comprehensive loss	(4,211)	(62,899)	(336,056)	(334,352)
<b>Comprehensive loss</b>	<b>(76,631)</b>	<b>(180,859)</b>	<b>(123,206)</b>	<b>(212,155)</b>
Dividends on preferred stock	13,748	13,747	27,495	30,963
<b>Comprehensive loss attributable to common stockholders</b>	<b>\$ (90,379)</b>	<b>\$ (194,606)</b>	<b>\$ (150,701)</b>	<b>\$ (243,118)</b>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**TWO HARBORS INVESTMENT CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (unaudited)**  
(in thousands)

	Preferred Stock	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Earnings	Cumulative Distributions to Stockholders	Total Stockholders' Equity
<b>Balance, December 31, 2020</b>	\$ 977,501	\$ 2,737	\$ 5,163,794	\$ 641,601	\$ 1,025,756	\$ (4,722,463)	\$ 3,088,926
Net income	—	—	—	—	240,157	—	240,157
Other comprehensive loss before reclassifications, net of tax	—	—	—	(202,888)	—	—	(202,888)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	—	—	(68,565)	—	—	(68,565)
Other comprehensive loss, net of tax	—	—	—	(271,453)	—	—	(271,453)
Redemption of preferred stock	(274,951)	—	—	—	—	—	(274,951)
Issuance of common stock, net of offering costs	—	—	99	—	—	—	99
Preferred dividends declared	—	—	—	—	—	(17,216)	(17,216)
Common dividends declared	—	—	—	—	—	(46,636)	(46,636)
Non-cash equity award compensation	—	—	1,790	—	—	—	1,790
<b>Balance, March 31, 2021</b>	<b>702,550</b>	<b>2,737</b>	<b>5,165,683</b>	<b>370,148</b>	<b>1,265,913</b>	<b>(4,786,315)</b>	<b>2,720,716</b>
Net loss	—	—	—	—	(117,960)	—	(117,960)
Other comprehensive loss before reclassifications, net of tax	—	—	—	(57,799)	—	—	(57,799)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	—	—	(5,100)	—	—	(5,100)
Other comprehensive loss, net of tax	—	—	—	(62,899)	—	—	(62,899)
Issuance of common stock, net of offering costs	—	—	93	—	—	—	93
Preferred dividends declared	—	—	—	—	—	(13,747)	(13,747)
Common dividends declared	—	—	—	—	—	(46,759)	(46,759)
Non-cash equity award compensation	—	—	4,611	—	—	—	4,611
<b>Balance, June 30, 2021</b>	<b>\$ 702,550</b>	<b>\$ 2,737</b>	<b>\$ 5,170,387</b>	<b>\$ 307,249</b>	<b>\$ 1,147,953</b>	<b>\$ (4,846,821)</b>	<b>\$ 2,484,055</b>
<b>Balance, December 31, 2021</b>	<b>\$ 702,550</b>	<b>\$ 3,439</b>	<b>\$ 5,625,179</b>	<b>\$ 186,346</b>	<b>\$ 1,212,983</b>	<b>\$ (4,986,544)</b>	<b>\$ 2,743,953</b>
Net income	—	—	—	—	285,270	—	285,270
Other comprehensive loss before reclassifications, net of tax	—	—	—	(323,490)	—	—	(323,490)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	—	—	(8,355)	—	—	(8,355)
Other comprehensive loss, net of tax	—	—	—	(331,845)	—	—	(331,845)
Issuance of common stock, net of offering costs	—	—	323	—	—	—	323
Preferred dividends declared	—	—	—	—	—	(13,747)	(13,747)
Common dividends declared	—	—	—	—	—	(58,811)	(58,811)
Non-cash equity award compensation	—	2	4,159	—	—	—	4,161
<b>Balance, March 31, 2022</b>	<b>702,550</b>	<b>3,441</b>	<b>5,629,661</b>	<b>(145,499)</b>	<b>1,498,253</b>	<b>(5,059,102)</b>	<b>2,629,304</b>
Net loss	—	—	—	—	(72,420)	—	(72,420)
Other comprehensive loss before reclassifications, net of tax	—	—	—	(141,843)	—	—	(141,843)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	—	—	137,632	—	—	137,632
Other comprehensive loss, net of tax	—	—	—	(4,211)	—	—	(4,211)
Issuance of common stock, net of offering costs	—	—	82	—	—	—	82
Preferred dividends declared	—	—	—	—	—	(13,748)	(13,748)
Common dividends declared	—	—	—	—	—	(58,844)	(58,844)
Non-cash equity award compensation	—	3	3,458	—	—	—	3,461
<b>Balance, June 30, 2022</b>	<b>\$ 702,550</b>	<b>\$ 3,444</b>	<b>\$ 5,633,201</b>	<b>\$ (149,710)</b>	<b>\$ 1,425,833</b>	<b>\$ (5,131,694)</b>	<b>\$ 2,483,624</b>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**TWO HARBORS INVESTMENT CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
(in thousands)

	Six Months Ended June 30,	
	2022	2021
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 212,850	\$ 122,197
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts on investment securities, net	55,287	134,581
Amortization of deferred debt issuance costs on term notes payable and convertible senior notes	1,265	1,321
Provision for credit losses on investment securities	1,651	6,257
Realized and unrealized losses (gains) on investment securities	248,410	(97,606)
Gain on servicing asset	(496,181)	(59,387)
Realized and unrealized loss (gain) on interest rate swaps and swaptions	300	(5,001)
Unrealized (gains) losses on other derivative instruments	(92,309)	27,063
Equity based compensation	7,622	6,401
Net change in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(3,988)	15,603
Decrease in deferred income taxes, net	74,710	3,534
Increase (decrease) in accrued interest payable	3,444	(3,710)
Change in other operating assets and liabilities, net	5,134	(832)
Net cash provided by operating activities	<u>18,195</u>	<u>150,421</u>
<b>Cash Flows From Investing Activities:</b>		
Purchases of available-for-sale securities	(7,295,928)	(152,743)
Proceeds from sales of available-for-sale securities	4,339,148	4,600,545
Principal payments on available-for-sale securities	687,642	1,985,490
Purchases of mortgage servicing rights, net of purchase price adjustments	(538,432)	(364,566)
Short sales (purchases) of derivative instruments, net	39,895	(1,232)
Proceeds from sales and settlement (payments for termination and settlement) of derivative instruments, net	160,024	17,881
Payments for reverse repurchase agreements	(1,135,374)	(480,344)
Proceeds from reverse repurchase agreements	1,111,085	501,869
Increase in due to counterparties, net	1,246,227	44,890
Change in other investing assets and liabilities, net	<u>—</u>	<u>10,000</u>
Net cash (used in) provided by investing activities	<u>\$ (1,385,713)</u>	<u>\$ 6,161,790</u>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**TWO HARBORS INVESTMENT CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited), continued**  
(in thousands)

	Six Months Ended June 30,	
	2022	2021
<b>Cash Flows From Financing Activities:</b>		
Proceeds from repurchase agreements	\$ 17,611,046	\$ 19,730,790
Principal payments on repurchase agreements	(17,309,244)	(26,524,066)
Proceeds from revolving credit facilities	410,000	261,500
Principal payments on revolving credit facilities	(5,000)	(11,811)
Proceeds from convertible senior notes	—	279,930
Repayment of convertible senior notes	(143,774)	(143,118)
Redemption of preferred stock	—	(274,951)
Proceeds from issuance of common stock, net of offering costs	405	192
Dividends paid on preferred stock	(27,495)	(36,165)
Dividends paid on common stock	(117,476)	(93,166)
Net cash provided by (used in) financing activities	<u>418,462</u>	<u>(6,810,865)</u>
Net decrease in cash, cash equivalents and restricted cash	(949,056)	(498,654)
Cash, cash equivalents and restricted cash at beginning of period	2,088,670	2,646,431
Cash, cash equivalents and restricted cash at end of period	<u>\$ 1,139,614</u>	<u>\$ 2,147,777</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	\$ 43,363	\$ 46,068
Cash (received) paid for taxes, net	<u>\$ (11)</u>	<u>\$ 47</u>
<b>Noncash Activities:</b>		
Dividends declared but not paid at end of period	<u>\$ 72,591</u>	<u>\$ 60,507</u>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)****Note 1. Organization and Operations**

Two Harbors Investment Corp. is a Maryland corporation that, through its wholly owned subsidiaries (collectively, the Company), invests in and manages Agency residential mortgage-backed securities, or Agency RMBS, mortgage servicing rights, or MSR, and other financial assets. Agency refers to a U.S. government sponsored enterprise, or GSE, such as the Federal National Mortgage Association (or Fannie Mae) or the Federal Home Loan Mortgage Corporation (or Freddie Mac), or a U.S. government agency such as the Government National Mortgage Association (or Ginnie Mae). The investment portfolio is managed as a whole and resources are allocated and financial performance is assessed on a consolidated basis. The Company's common stock is listed on the NYSE under the symbol "TWO".

The Company has elected to be treated as a real estate investment trust, or REIT, as defined under the Internal Revenue Code of 1986, as amended, or the Code, for U.S. federal income tax purposes. As long as the Company continues to comply with a number of requirements under federal tax law and maintains its qualification as a REIT, the Company generally will not be subject to U.S. federal income taxes to the extent that the Company distributes its taxable income to its stockholders on an annual basis and does not engage in prohibited transactions. However, certain activities that the Company may perform may cause it to earn income which will not be qualifying income for REIT purposes. The Company has designated certain of its subsidiaries as taxable REIT subsidiaries, or TRSs, as defined in the Code, to engage in such activities.

**Note 2. Basis of Presentation and Significant Accounting Policies****Consolidation and Basis of Presentation**

The interim unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, or the SEC. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, have been condensed or omitted according to such SEC rules and regulations. However, management believes that the disclosures included in these interim condensed consolidated financial statements are adequate to make the information presented not misleading.

The condensed consolidated financial statements of the Company include the accounts of all subsidiaries; inter-company accounts and transactions have been eliminated. All trust entities in which the Company holds investments that are considered variable interest entities, or VIEs, for financial reporting purposes were reviewed for consolidation under the applicable consolidation guidance. Whenever the Company has both the power to direct the activities of a trust that most significantly impact the entities' performance, and the obligation to absorb losses or the right to receive benefits of the entities that could be significant, the Company consolidates the trust. Certain prior period amounts have been reclassified to conform to the current period presentation. The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition of the Company at June 30, 2022 and results of operations for all periods presented have been made. The results of operations for the three and six months ended June 30, 2022 should not be construed as indicative of the results to be expected for future periods or the full year.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make a number of significant estimates. These include estimates of fair value of certain assets and liabilities, amount and timing of credit losses, prepayment rates, and other estimates that affect the reported amounts of certain assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of certain revenues and expenses during the reported period. It is likely that changes in these estimates (e.g., valuation changes due to supply and demand in the market, credit performance, prepayments, interest rates, or other reasons) will occur in the near term. The Company's estimates are inherently subjective in nature and actual results could differ from its estimates and the differences may be material.

**Significant Accounting Policies**

Included in Note 2 to the Consolidated Financial Statements of the Company's 2021 Annual Report on Form 10-K is a summary of the Company's significant accounting policies.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)****Recently Issued and/or Adopted Accounting Standards***Facilitation of the Effects of Reference Rate Reform on Financial Reporting*

The London Interbank Offered Rate, or LIBOR, has been used extensively in the U.S. and globally as a “benchmark” or “reference rate” for various commercial and financial contracts, including corporate and municipal bonds and loans, floating rate mortgages, asset-backed securities, consumer loans, and interest rate swaps and other derivatives. On March 5, 2021, Intercontinental Exchange Inc. announced that ICE Benchmark Administration Limited, the administrator of LIBOR, intends to stop publication of the majority of USD-LIBOR tenors on June 30, 2023. In the U.S., the Alternative Reference Rates Committee, or ARRC, has identified the Secured Overnight Financing Rate, or SOFR, as its preferred alternative rate for U.S. dollar-based LIBOR. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions. Numerous industry wide and company-specific transitions as it relates to derivatives and cash markets exposed to LIBOR are in process, if not completed.

In March 2020, the FASB issued ASU No. 2020-04, which provides temporary optional expedients and exceptions on accounting for contract modifications and hedging relationships in anticipation of the replacement of LIBOR with another reference rate. The guidance also provides a one-time election to sell held-to-maturity debt securities or to transfer such securities to the available-for-sale or trading category. The Company has material contracts that are indexed to USD-LIBOR and is monitoring this activity, evaluating the related risks and the Company’s exposure, and has already amended terms to transition to an alternative benchmark, where necessary. All of the Company’s financing arrangements and derivative instruments that incorporate LIBOR as the referenced rate either mature prior to the phase out of LIBOR or have provisions in place that provide for an alternative to LIBOR upon its phase-out. Additionally, each series of the Company’s fixed-to-floating preferred stock that becomes redeemable at the time the stock begins to pay a LIBOR-based rate has existing LIBOR cessation fallback language. The ASU was effective immediately for all entities and expires after December 31, 2022. The Company’s adoption of this ASU did not have an impact on the Company’s financial condition, results of operations or financial statement disclosures.

**Note 3. Variable Interest Entities**

The Company enters into transactions with subsidiary trust entities that are established for limited purposes. One of the Company’s subsidiary trust entities, or the MSR Issuer Trust, was formed for the purpose of financing MSR through securitization, pursuant to which, through two of the Company’s wholly owned subsidiaries, MSR is pledged to the MSR Issuer Trust and in return, the MSR Issuer Trust issues term notes to qualified institutional buyers and a variable funding note, or VFN, to one of the subsidiaries, in each case secured on a pari passu basis. The Company has one repurchase facility that is secured by the VFN, which is collateralized by the Company’s MSR.

Another of the Company’s subsidiary trust entities, or the Servicing Advance Receivables Issuer Trust, was formed for the purpose of financing servicing advances through a revolving credit facility, pursuant to which the Servicing Advance Receivables Issuer Trust issued a VFN backed by servicing advances pledged to the financing counterparty.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)**

The following table presents a summary of the assets and liabilities of all consolidated trusts as reported on the condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021:

(in thousands)	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Note receivable <sup>(1)</sup>	\$ 397,383	\$ 396,776
Restricted cash	18,154	23,892
Accrued interest receivable <sup>(1)</sup>	197	161
Other assets	34,119	33,767
<b>Total Assets</b>	<b>\$ 449,853</b>	<b>\$ 454,596</b>
Term notes payable	\$ 397,383	\$ 396,776
Revolving credit facilities	29,200	19,200
Accrued interest payable	308	216
Other liabilities	18,043	23,838
<b>Total Liabilities</b>	<b>\$ 444,934</b>	<b>\$ 440,030</b>

(1) Receivables due from a wholly owned subsidiary of the Company to the trusts are eliminated in consolidation in accordance with U.S. GAAP.

**Note 4. Available-for-Sale Securities, at Fair Value**

The Company holds both Agency and non-Agency available-for-sale, or AFS, investment securities which are carried at fair value on the condensed consolidated balance sheets. The following table presents the Company's AFS investment securities by collateral type as of June 30, 2022 and December 31, 2021:

(in thousands)	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Agency:		
Federal National Mortgage Association	\$ 5,711,203	\$ 5,040,988
Federal Home Loan Mortgage Corporation	2,847,222	1,922,809
Government National Mortgage Association	143,522	185,602
Non-Agency	87,490	12,304
<b>Total available-for-sale securities</b>	<b>\$ 8,789,437</b>	<b>\$ 7,161,703</b>

At June 30, 2022 and December 31, 2021, the Company pledged AFS securities with a carrying value of \$7.4 billion and \$7.0 billion, respectively, as collateral for repurchase agreements. See Note 11 - *Repurchase Agreements*.

At June 30, 2022 and December 31, 2021, the Company did not have any securities purchased from and financed with the same counterparty that did not meet the conditions of ASC 860, *Transfers and Servicing*, to be considered linked transactions and, therefore, classified as derivatives.

The Company is not required to consolidate VIEs for which it has concluded it does not have both the power to direct the activities of the VIEs that most significantly impact the entities' performance, and the obligation to absorb losses or the right to receive benefits of the entities that could be significant. The Company's investments in these unconsolidated VIEs include all non-Agency securities, which are classified within available-for-sale securities, at fair value on the condensed consolidated balance sheets. As of June 30, 2022 and December 31, 2021, the carrying value, which also represents the maximum exposure to loss, of all non-Agency securities in unconsolidated VIEs was \$87.5 million and \$12.3 million, respectively.

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

The following tables present the amortized cost and carrying value of AFS securities by collateral type as of June 30, 2022 and December 31, 2021:

(in thousands)	June 30, 2022							
	Principal/ Current Face	Un-amortized Premium	Accratable Purchase Discount	Amortized Cost	Allowance for Credit Losses	Unrealized Gain	Unrealized Loss	Carrying Value
<b>Agency:</b>								
Principal and interest	\$ 8,603,008	\$ 223,912	\$ (62,948)	\$ 8,763,972	\$ —	\$ 17,675	\$ (197,154)	\$ 8,584,493
Interest-only	1,665,968	116,302	—	116,302	(9,403)	15,941	(5,386)	117,454
Total Agency	10,268,976	340,214	(62,948)	8,880,274	(9,403)	33,616	(202,540)	8,701,947
Non-Agency	1,280,889	8,993	(408)	89,338	(260)	590	(2,178)	87,490
<b>Total</b>	<b>\$ 11,549,865</b>	<b>\$ 349,207</b>	<b>\$ (63,356)</b>	<b>\$ 8,969,612</b>	<b>\$ (9,663)</b>	<b>\$ 34,206</b>	<b>\$ (204,718)</b>	<b>\$ 8,789,437</b>

(in thousands)	December 31, 2021							
	Principal/ Current Face	Un-amortized Premium	Accratable Purchase Discount	Amortized Cost	Allowance for Credit Losses	Unrealized Gain	Unrealized Loss	Carrying Value
<b>Agency:</b>								
Principal and interest	\$ 6,411,363	\$ 270,699	\$ (12)	\$ 6,682,050	\$ —	\$ 171,308	\$ (4,855)	\$ 6,848,503
Interest-only	3,198,447	305,577	—	305,577	(12,851)	20,699	(12,529)	300,896
Total Agency	9,609,810	576,276	(12)	6,987,627	(12,851)	192,007	(17,384)	7,149,399
Non-Agency	1,940,815	16,533	(27)	17,386	(1,387)	33	(3,728)	12,304
<b>Total</b>	<b>\$ 11,550,625</b>	<b>\$ 592,809</b>	<b>\$ (39)</b>	<b>\$ 7,005,013</b>	<b>\$ (14,238)</b>	<b>\$ 192,040</b>	<b>\$ (21,112)</b>	<b>\$ 7,161,703</b>

The following table presents the Company's AFS securities according to their estimated weighted average life classifications as of June 30, 2022:

(in thousands)	June 30, 2022		
	Agency	Non-Agency	Total
< 1 year	\$ 1,406	\$ —	\$ 1,406
≥ 1 and < 3 years	39,226	—	39,226
≥ 3 and < 5 years	112,934	79,600	192,534
≥ 5 and < 10 years	8,547,506	7,890	8,555,396
≥ 10 years	875	—	875
<b>Total</b>	<b>\$ 8,701,947</b>	<b>\$ 87,490</b>	<b>\$ 8,789,437</b>

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**Measurement of Allowances for Credit Losses on AFS Securities**

The Company uses a discounted cash flow method to estimate and recognize an allowance for credit losses on both Agency and non-Agency AFS securities that are not accounted for under the fair value option. The following tables present the changes for the three and six months ended June 30, 2022 and 2021 in the allowance for credit losses on Agency and non-Agency AFS securities:

(in thousands)	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Allowance for credit losses at beginning of period	\$ (11,567)	\$ (6)	\$ (11,573)	\$ (12,851)	\$ (1,387)	\$ (14,238)
Additions on securities for which credit losses were not previously recorded	(33)	(259)	(292)	(35)	(259)	(294)
(Increase) decrease on securities with previously recorded credit losses	(250)	5	(245)	(2,743)	1,386	(1,357)
Write-offs	2,447	—	2,447	6,226	—	6,226
Allowance for credit losses at end of period	<u><u>\$ (9,403)</u></u>	<u><u>\$ (260)</u></u>	<u><u>\$ (9,663)</u></u>	<u><u>\$ (9,403)</u></u>	<u><u>\$ (260)</u></u>	<u><u>\$ (9,663)</u></u>
(in thousands)	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Allowance for credit losses at beginning of period	\$ (16,699)	\$ (1,471)	\$ (18,170)	\$ (17,889)	\$ (4,639)	\$ (22,528)
Additions on securities for which credit losses were not previously recorded	(11)	(3,850)	(3,861)	(31)	(3,850)	(3,881)
(Increase) decrease on securities with previously recorded credit losses	(297)	(3,234)	(3,531)	(2,137)	(239)	(2,376)
Write-offs	1,853	5,944	7,797	4,903	6,117	11,020
Allowance for credit losses at end of period	<u><u>\$ (15,154)</u></u>	<u><u>\$ (2,611)</u></u>	<u><u>\$ (17,765)</u></u>	<u><u>\$ (15,154)</u></u>	<u><u>\$ (2,611)</u></u>	<u><u>\$ (17,765)</u></u>

The following tables present the components comprising the carrying value of AFS securities for which an allowance for credit losses has not been recorded by length of time that the securities had an unrealized loss position as of June 30, 2022 and December 31, 2021. At June 30, 2022 and December 31, 2021, the Company held 777 and 756 AFS securities, respectively; of the securities for which an allowance for credit losses has not been recorded, 368 and 45 were in an unrealized loss position for less than twelve consecutive months. At both June 30, 2022 and December 31, 2021, none of the Company's AFS securities were in an unrealized loss position for more than twelve months without an allowance for credit losses recorded.

(in thousands)	June 30, 2022					
	Less than 12 Months		Unrealized Loss Position for 12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Agency	\$ 7,099,362	\$ (199,745)	\$ —	\$ —	\$ 7,099,362	\$ (199,745)
Non-Agency	82,244	(1,231)	—	—	82,244	(1,231)
Total	<u><u>\$ 7,181,606</u></u>	<u><u>\$ (200,976)</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 7,181,606</u></u>	<u><u>\$ (200,976)</u></u>

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

(in thousands)	December 31, 2021					
	Less than 12 Months		Unrealized Loss Position for 12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Agency	\$ 2,371,216	\$ (12,031)	\$ —	\$ —	\$ 2,371,216	\$ (12,031)
Non-Agency	9,613	(1,230)	—	—	9,613	(1,230)
Total	<u>\$ 2,380,829</u>	<u>\$ (13,261)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,380,829</u>	<u>\$ (13,261)</u>

**Gross Realized Gains and Losses**

Gains and losses from the sale of AFS securities are recorded as realized gains (losses) within (loss) gain on investment securities in the Company's condensed consolidated statements of comprehensive loss. The following table presents details around sales of AFS securities during the three and six months ended June 30, 2022 and 2021:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	2022	2021	2022	2021
Proceeds from sales of available-for-sale securities	\$ 2,326,528	\$ 2,549,602	\$ 4,339,148	\$ 4,600,545
Amortized cost of available-for-sale securities sold	(2,514,613)	(2,532,087)	(4,582,084)	(4,516,832)
Total realized (losses) gains on sales, net	<u>\$ (188,085)</u>	<u>\$ 17,515</u>	<u>\$ (242,936)</u>	<u>\$ 83,713</u>
 Gross realized gains	 \$ 6,884	 \$ 46,768	 \$ 21,579	 \$ 112,985
Gross realized losses	(194,969)	(29,253)	(264,515)	(29,272)
Total realized (losses) gains on sales, net	<u>\$ (188,085)</u>	<u>\$ 17,515</u>	<u>\$ (242,936)</u>	<u>\$ 83,713</u>

**Note 5. Servicing Activities**

**Mortgage Servicing Rights, at Fair Value**

A wholly owned subsidiary of the Company has approvals from Fannie Mae and Freddie Mac to own and manage MSR, which represent the right to control the servicing of residential mortgage loans. The Company and its subsidiaries do not originate or directly service mortgage loans, and instead contract with appropriately licensed subservicers to handle substantially all servicing functions in the name of the subservicer for the loans underlying the Company's MSR.

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

The following table summarizes activity related to MSR for the three and six months ended June 30, 2022 and 2021.

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Balance at beginning of period	\$ 3,089,963	\$ 2,091,761	\$ 2,191,578	\$ 1,596,153
Purchases of mortgage servicing rights	59,945	198,526	544,750	373,749
Changes in fair value due to:				
Changes in valuation inputs or assumptions used in the valuation model	199,272	(72,910)	724,185	428,783
Other changes in fair value <sup>(2)</sup>	(113,715)	(195,141)	(228,004)	(369,396)
Other changes <sup>(3)</sup>	(9,274)	(2,130)	(6,318)	(9,183)
Balance at end of period <sup>(4)</sup>	\$ 3,226,191	\$ 2,020,106	\$ 3,226,191	\$ 2,020,106

(1) Includes the impact of acquiring MSR at a cost different from fair value.

(2) Primarily represents changes due to the realization of expected cash flows.

(3) Includes purchase price adjustments, contractual prepayment protection, and changes due to the Company's purchase of the underlying collateral.

(4) Based on the principal balance of the loans underlying the MSR reported by servicers on a month lag, adjusted for current month purchases.

At June 30, 2022 and December 31, 2021, the Company pledged MSR with a carrying value of \$3.2 billion and \$2.1 billion, respectively, as collateral for repurchase agreements, revolving credit facilities and term notes payable. See Note 11 - *Repurchase Agreements*, Note 12 - *Revolving Credit Facilities* and Note 13 - *Term Notes Payable*.

As of June 30, 2022 and December 31, 2021, the key economic assumptions and sensitivity of the fair value of MSR to immediate 10% and 20% adverse changes in these assumptions were as follows:

(dollars in thousands, except per loan data)	June 30, 2022	December 31, 2021
Weighted average prepayment speed:		
Impact on fair value of 10% adverse change	\$ (69,057)	\$ (110,222)
Impact on fair value of 20% adverse change	\$ (139,968)	\$ (210,406)
Weighted average delinquency:		
Impact on fair value of 10% adverse change	\$ (4,517)	\$ (3,470)
Impact on fair value of 20% adverse change	\$ (9,066)	\$ (6,947)
Weighted average option-adjusted spread:		
Impact on fair value of 10% adverse change	\$ (50,651)	\$ (42,188)
Impact on fair value of 20% adverse change	\$ (101,512)	\$ (82,126)
Weighted average per loan annual cost to service:		
Impact on fair value of 10% adverse change	\$ 67.64	\$ 66.76
Impact on fair value of 20% adverse change	\$ (24,196)	\$ (25,919)

These assumptions and sensitivities are hypothetical and should be considered with caution. Changes in fair value based on 10% and 20% variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of MSR is calculated without changing any other assumptions. In reality, changes in one factor may result in changes in another (e.g., increased market interest rates may result in lower prepayments and increased credit losses) that could magnify or counteract the sensitivities. Further, these sensitivities show only the change in the asset balances and do not show any expected change in the fair value of the instruments used to manage the interest rates and prepayment risks associated with these assets.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)****Risk Mitigation Activities**

The primary risk associated with the Company's MSR is interest rate risk and the resulting impact on prepayments. A significant decline in interest rates could lead to higher-than-expected prepayments that could reduce the value of the MSR. The Company economically hedges the impact of these risks primarily with its Agency RMBS portfolio.

**Mortgage Servicing Income**

The following table presents the components of servicing income recorded on the Company's condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2022 and 2021:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Servicing fee income	\$ 153,620	\$ 111,083	\$ 288,834	\$ 216,248
Ancillary and other fee income	561	622	1,031	1,238
Float income	3,345	1,111	4,287	2,449
Total	\$ 157,526	\$ 112,816	\$ 294,152	\$ 219,935

**Mortgage Servicing Advances**

As the servicer of record for the MSR assets, the Company may be required to advance principal and interest payments to security holders, and intermittent tax and insurance payments to local authorities and insurance companies on mortgage loans that are in forbearance, delinquency or default. The Company is responsible for funding these advances, potentially for an extended period of time, before receiving reimbursement from Fannie Mae and Freddie Mac. Servicing advances are priority cash flows in the event of a loan principal reduction or foreclosure and ultimate liquidation of the real estate-owned property, thus making their collection reasonably assured. These servicing advances totaled \$98.8 million and \$130.6 million and were included in other assets on the condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021, respectively. At June 30, 2022 and December 31, 2021, mortgage loans in 60+ day delinquent status (whether or not subject to forbearance) accounted for approximately 0.8% and 1.3%, respectively, of the aggregate principal balance of loans for which the Company had servicing advance funding obligations.

The Company has one revolving credit facility to finance its servicing advance obligations. At June 30, 2022 and December 31, 2021, the Company had pledged servicing advances with a carrying value of \$34.1 million and \$33.8 million, respectively, as collateral for this revolving credit facility. See Note 12 - *Revolving Credit Facilities*.

**Serviced Mortgage Assets**

The Company's total serviced mortgage assets consist of residential mortgage loans underlying its MSR assets, off-balance sheet residential mortgage loans owned by other entities for which the Company acts as servicing administrator and other assets. The following table presents the number of loans and unpaid principal balance of the mortgage assets for which the Company manages the servicing as of June 30, 2022 and December 31, 2021:

(dollars in thousands)	June 30, 2022		December 31, 2021	
	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance
Mortgage servicing rights	901,244	\$ 227,074,413	796,205	\$ 193,770,566
Residential mortgage loans	677	399,718	868	519,270
Other assets	1	23	2	40
Total serviced mortgage assets	901,922	\$ 227,474,154	797,075	\$ 194,289,876

**Note 6. Cash, Cash Equivalents and Restricted Cash**

Cash and cash equivalents include cash held in bank accounts and cash held in money market funds on an overnight basis.

The Company is required to maintain certain cash balances with counterparties for securities and derivatives trading activity, servicing activities and collateral for the Company's borrowings in restricted accounts. The Company has also placed cash in a restricted account pursuant to a letter of credit on an office space lease.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)**

The following table presents the Company's restricted cash balances as of June 30, 2022 and December 31, 2021:

(in thousands)	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Restricted cash balances held by trading counterparties:		
For securities trading activity	\$ 2,951	\$ 23,800
For derivatives trading activity	239,886	136,271
For servicing activities	21,691	26,704
As restricted collateral for borrowings	363,137	747,979
Total restricted cash balances held by trading counterparties	<u>627,665</u>	<u>934,754</u>
Restricted cash balance pursuant to letter of credit on office lease	60	60
<b>Total</b>	<b>\$ 627,725</b>	<b>\$ 934,814</b>

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported on the Company's condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021 that sum to the total of the same such amounts shown in the statements of cash flows:

(in thousands)	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Cash and cash equivalents	\$ 511,889	\$ 1,153,856
Restricted cash	627,725	934,814
<b>Total cash, cash equivalents and restricted cash</b>	<b>\$ 1,139,614</b>	<b>\$ 2,088,670</b>

**Note 7. Derivative Instruments and Hedging Activities**

The Company enters into a variety of derivative and non-derivative instruments in connection with its risk management activities. The primary objective for executing these derivative and non-derivative instruments is to mitigate the Company's economic exposure to future events that are outside its control, principally cash flow volatility associated with interest rate risk (including associated prepayment risk). Specifically, the Company enters into derivative and non-derivative instruments to economically hedge interest rate risk or "duration mismatch (or gap)" by adjusting the duration of its floating-rate borrowings into fixed-rate borrowings to more closely match the duration of its assets. This particularly applies to floating-rate borrowing agreements with maturities or interest rate resets of less than six months. Typically, the interest receivable terms (e.g., LIBOR, Overnight Index Swap Rate, or OIS, or SOFR) of certain derivatives match the terms of the underlying debt, resulting in an effective conversion of the rate of the related borrowing agreement from floating to fixed. The objective is to manage the cash flows associated with current and anticipated interest payments on borrowings, as well as the ability to roll or refinance borrowings at the desired amount by adjusting the duration.

To help manage the adverse impact of interest rate changes on the value of the Company's portfolio as well as its cash flows, the Company may, at times, enter into various forward contracts, including short securities, Agency to-be-announced securities, or TBAs, options, futures, swaps, caps and total return swaps. In executing on the Company's current risk management strategy, the Company has entered into TBAs, interest rate swap and swaption agreements, futures and options on futures. The Company has also entered into a number of non-derivative instruments to manage interest rate risk, principally MSR and interest-only securities (see discussion below).

The following summarizes the Company's significant asset and liability classes, the risk exposure for these classes, and the Company's risk management activities used to mitigate these risks. The discussion includes both derivative and non-derivative instruments used as part of these risk management activities. Any of the Company's derivative and non-derivative instruments may be entered into in conjunction with one another in order to mitigate risks. As a result, the following discussions of each type of instrument should be read as a collective representation of the Company's risk mitigation efforts and should not be considered independent of one another. While the Company uses derivative and non-derivative instruments to achieve the Company's risk management activities, it is possible that these instruments will not effectively mitigate all or a substantial portion of the Company's market rate risk. In addition, the Company might elect, at times, not to enter into certain hedging arrangements in order to maintain compliance with REIT requirements.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)*****Balance Sheet Presentation***

In accordance with ASC 815, the Company records derivative financial instruments on its condensed consolidated balance sheets as assets or liabilities at fair value. Changes in fair value are accounted for depending on the use of the derivative instruments and whether they are designated or qualifying as hedge instruments. Due to the volatility of the interest rate and credit markets and difficulty in effectively matching pricing or cash flows, the Company has not designated any current derivatives as hedging instruments.

The following tables present the gross fair value and notional amounts of the Company's derivative financial instruments treated as trading derivatives as of June 30, 2022 and December 31, 2021:

(in thousands)	June 30, 2022			
	Derivative Assets		Derivative Liabilities	
	Fair Value	Notional	Fair Value	Notional
Inverse interest-only securities	\$ 24,382	\$ 217,851	\$ —	\$ —
Interest rate swap agreements	—	—	—	14,850,336
Swaptions, net	541	—	(94,227)	(1,680,000)
TBAs	4,407	422,000	(16,537)	5,895,000
Futures, net	—	(16,727,160)	—	—
Total	\$ 29,330	\$ (16,087,309)	\$ (110,764)	\$ 19,065,336

  

(in thousands)	December 31, 2021			
	Derivative Assets		Derivative Liabilities	
	Fair Value	Notional	Fair Value	Notional
Inverse interest-only securities	\$ 41,367	\$ 247,101	\$ —	\$ —
Interest rate swap agreements	—	20,387,300	—	—
Swaptions, net	—	—	(51,743)	(1,761,000)
TBAs	3,405	3,523,000	(1,915)	593,000
Futures, net	35,362	(5,829,600)	—	—
Total	\$ 80,134	\$ 18,327,801	\$ (53,658)	\$ (1,168,000)

***Comprehensive Loss Statement Presentation***

The Company has not applied hedge accounting to its current derivative portfolio held to mitigate interest rate risk and credit risk. As a result, the Company is subject to volatility in its earnings due to movement in the unrealized gains and losses associated with its derivative instruments.

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

The following table summarizes the location and amount of gains and losses on derivative instruments reported in the condensed consolidated statements of comprehensive loss:

Derivative Instruments (in thousands)	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income		Amount of Gain (Loss) Recognized in Income	
		Three Months Ended June 30,		Six Months Ended June 30,	
		2022	2021	2022	2021
<b>Interest rate risk management:</b>					
TBAs	(Loss) gain on other derivative instruments	\$ (109,442)	\$ 31,817	\$ (308,278)	\$ (156,129)
Futures	(Loss) gain on other derivative instruments	11,312	18,264	117,407	(66,877)
Options on futures	(Loss) gain on other derivative instruments	(158)	—	(2,224)	—
Interest rate swaps - Payers	Gain (loss) on interest rate swap and swaption agreements	235,234	(23,019)	672,394	57,294
Interest rate swaps - Receivers	Gain (loss) on interest rate swap and swaption agreements	(204,550)	54,229	(681,689)	(52,144)
Swaptions	Gain (loss) on interest rate swap and swaption agreements	2,050	(6,562)	3,988	3,899
<b>Non-risk management:</b>					
Inverse interest-only securities	(Loss) gain on other derivative instruments	(2,985)	1,231	(9,940)	(1,693)
<b>Total</b>		<b>\$ (68,539)</b>	<b>\$ 75,960</b>	<b>\$ (208,342)</b>	<b>\$ (215,650)</b>

For the three and six months ended June 30, 2022, the Company recognized expense of \$4.3 million and \$5.0 million, respectively, for the accrual and/or settlement of the net interest expense associated with its interest rate swaps and caps. The expense results from receiving either a floating interest rate (OIS or SOFR) or a fixed interest rate and paying either a fixed interest rate or a floating interest rate (OIS or SOFR) on an average \$20.5 billion and \$22.5 billion notional, respectively. For the three and six months ended June 30, 2021, the Company recognized income of \$2.4 million and \$4.0 million respectively, for the accrual and/or settlement of the net interest expense associated with its interest rate swaps. The income results from receiving either a floating interest rate (OIS or SOFR) or a fixed interest rate and paying either a fixed interest rate or a floating interest rate (OIS, or SOFR) on an average \$15.2 billion and \$14.3 billion notional, respectively.

The following tables present information with respect to the volume of activity in the Company's derivative instruments during the three and six months ended June 30, 2022 and 2021:

(in thousands)	Three Months Ended June 30, 2022					
	Beginning of Period Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	End of Period Notional Amount	Average Notional Amount	Realized Gain (Loss), net <sup>(1)</sup>
Inverse interest-only securities	\$ 232,218	\$ —	\$ (14,367)	\$ 217,851	\$ 225,537	\$ (1,874)
Interest rate swap agreements	24,299,647	6,653,204	(16,102,515)	14,850,336	20,461,467	219,024
Swaptions, net	(2,761,000)	—	1,081,000	(1,680,000)	(1,901,286)	27,180
TBAs, net	4,622,000	21,697,000	(20,002,000)	6,317,000	5,568,560	(103,892)
Futures, net	(7,516,650)	(17,500,060)	8,289,550	(16,727,160)	(15,287,970)	2,490
Options on futures, net	2,000	—	(2,000)	—	1,055	(2,224)
<b>Total</b>	<b>\$ 18,878,215</b>	<b>\$ 10,850,144</b>	<b>\$ (26,750,332)</b>	<b>\$ 2,978,027</b>	<b>\$ 9,067,363</b>	<b>\$ 140,711</b>

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

	Three Months Ended June 30, 2021					
	Beginning of Period Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	End of Period Notional Amount	Average Notional Amount	Realized Gain (Loss), net <sup>(1)</sup>
(in thousands)						
Inverse interest-only securities	\$ 300,597	\$ —	\$ (19,124)	\$ 281,473	\$ 291,985	\$ (25)
Interest rate swap agreements	15,221,597	1,080,356	(655,000)	15,646,953	15,198,601	8,642
Swaptions, net	—	(201,000)	—	(201,000)	(65,934)	—
TBAs, net	4,800,000	20,912,000	(18,858,000)	6,854,000	6,251,516	23,426
Futures, net	(1,185,100)	6,952,500	(5,253,900)	513,500	(94,869)	10,175
Total	\$ 19,137,094	\$ 28,743,856	\$ (24,786,024)	\$ 23,094,926	\$ 21,581,299	\$ 42,218
Six Months Ended June 30, 2022						
	Beginning of Period Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	End of Period Notional Amount	Average Notional Amount	Realized Gain (Loss), net <sup>(1)</sup>
Inverse interest-only securities	\$ 247,101	\$ —	\$ (29,250)	\$ 217,851	\$ 232,750	\$ (3,640)
Interest rate swap agreements	20,387,300	17,445,009	(22,981,973)	14,850,336	22,478,619	162,761
Swaptions, net	(1,761,000)	(1,000,000)	1,081,000	(1,680,000)	(2,071,862)	27,186
TBAs, net	4,116,000	42,215,000	(40,014,000)	6,317,000	4,595,387	(294,658)
Futures, net	(5,829,600)	(22,366,160)	11,468,600	(16,727,160)	(11,826,254)	380
Options on futures, net	—	2,000	(2,000)	—	840	(2,224)
Total	\$ 17,159,801	\$ 36,295,849	\$ (50,477,623)	\$ 2,978,027	\$ 13,409,480	\$ (110,195)
Six Months Ended June 30, 2021						
	Beginning of Period Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	End of Period Notional Amount	Average Notional Amount	Realized Gain (Loss), net <sup>(1)</sup>
Inverse interest-only securities	\$ 318,162	\$ —	\$ (36,689)	\$ 281,473	\$ 301,143	\$ 37
Interest rate swap agreements	12,646,341	4,192,863	(1,192,251)	15,646,953	14,342,217	47
Swaptions, net	3,750,000	(201,000)	(3,750,000)	(201,000)	127,072	2,245
TBAs, net	5,197,000	41,714,000	(40,057,000)	6,854,000	5,780,657	(140,097)
Futures, net	2,021,100	7,922,800	(9,430,400)	513,500	138,038	(60,722)
Total	\$ 23,932,603	\$ 53,628,663	\$ (54,466,340)	\$ 23,094,926	\$ 20,689,127	\$ (198,490)

(1) Excludes net interest paid or received in full settlement of the net interest spread liability.

Cash flow activity related to derivative instruments is reflected within the operating activities and investing activities sections of the condensed consolidated statements of cash flows. Realized gains and losses and derivative fair value adjustments are reflected within the realized and unrealized loss (gain) on interest rate swaps and swaptions and unrealized (gains) losses on other derivative instruments line items within the operating activities section of the condensed consolidated statements of cash flows. The remaining cash flow activity related to derivative instruments is reflected within the short sales (purchases) of derivative instruments, proceeds from sales and settlements (payments for termination and settlement) of derivative instruments, net and increase in due to counterparties, net line items within the investing activities section of the condensed consolidated statements of cash flows.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)****Interest Rate Sensitive Assets/Liabilities**

The Company's Agency RMBS portfolio is generally subject to change in value when interest rates or prepayment speeds decrease or increase, depending on the type of investment. Periods of rising interest rates with corresponding decreasing prepayment speeds generally result in a decline in the value of the Company's fixed-rate Agency principal and interest (P&I) RMBS. The impact of this effect on the Company's fixed-rate Agency P&I RMBS portfolio is partially mitigated by the presence of fixed-rate interest-only Agency RMBS, which generally increase in value when prepayment speeds decrease and MSR, which generally increase in value when prepayment speeds decrease and interest rates increase. As of June 30, 2022 and December 31, 2021, the Company had \$98.0 million and \$274.1 million, respectively, of interest-only securities, and \$3.2 billion and \$2.2 billion, respectively, of MSR. Interest-only securities are included in AFS securities, at fair value, in the condensed consolidated balance sheets.

The Company monitors its borrowings under repurchase agreements and revolving credit facilities, which are generally floating-rate debt, in relation to the rate profile of its portfolio. In connection with its risk management activities, the Company enters into a variety of derivative and non-derivative instruments to economically hedge interest rate risk or duration mismatch (or gap) by adjusting the duration of its floating-rate borrowings into fixed-rate borrowings to more closely match the duration of its assets. This particularly applies to borrowing agreements with maturities or interest rate resets of less than six months. Typically, the interest receivable terms (e.g., LIBOR, OIS or SOFR) of certain derivatives match the terms of the underlying debt, resulting in an effective conversion of the rate of the related borrowing agreement from floating to fixed. The objective is to manage the cash flows associated with current and anticipated interest payments on borrowings, as well as the ability to roll or refinance borrowings at the desired amount by adjusting the duration. To help manage the adverse impact of interest rate changes on the value of the Company's portfolio as well as its cash flows, the Company may, at times, enter into various forward contracts, including short securities, TBAs, options, futures, swaps, caps, credit default swaps and total return swaps. In executing on the Company's current interest rate risk management strategy, the Company has entered into TBAs, interest rate swap and swaption agreements, futures and options on futures.

The Company has certain derivative contracts that are indexed to LIBOR and is monitoring market transition plans as it relates to derivatives exposed to LIBOR and evaluating the related risks and the Company's exposure. All of the Company's derivative instruments that incorporate LIBOR as the referenced rate mature prior to the phase out of LIBOR. See Note 2 - *Basis of Presentation and Significant Accounting Policies* for further discussion of the transition away from LIBOR.

**TBAs.** The Company may use TBAs as a means of deploying capital until targeted investments are available or to take advantage of temporary displacements, funding advantages or valuation differentials in the marketplace. Additionally, the Company may use TBAs independently, or in conjunction with other derivative and non-derivative instruments, in order to mitigate risks. TBAs are forward contracts for the purchase (long notional positions) or sale (short notional positions) of Agency RMBS. The issuer, coupon and stated maturity of the Agency RMBS are predetermined as well as the trade price, face amount and future settle date (published each month by the Securities Industry and Financial Markets Association). However, the specific Agency RMBS to be delivered upon settlement is not known at the time of the TBA transaction. As a result, and because physical delivery of the Agency RMBS upon settlement cannot be assured, the Company accounts for TBAs as derivative instruments.

The Company may hold both long and short notional TBA positions, which are disclosed on a gross basis according to the unrealized gain or loss position of each TBA contract regardless of long or short notional position. The following tables present the notional amount, cost basis, market value and carrying value (which approximates fair value) of the Company's TBA positions as of June 30, 2022 and December 31, 2021:

(in thousands)	June 30, 2022					
	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Derivative Assets	Net Carrying Value <sup>(4)</sup>	
Purchase contracts	\$ 6,317,000	\$ 6,409,396	\$ 6,397,266	\$ 4,407	\$	(16,537)
Sale contracts	—	—	—	—	—	—
TBAs, net	<u>\$ 6,317,000</u>	<u>\$ 6,409,396</u>	<u>\$ 6,397,266</u>	<u>\$ 4,407</u>	<u>\$</u>	<u>(16,537)</u>

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

(in thousands)	December 31, 2021				
	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Derivative Assets	Net Carrying Value <sup>(4)</sup> Derivative Liabilities
Purchase contracts	\$ 4,116,000	\$ 4,238,881	\$ 4,240,371	\$ 3,405	\$ (1,915)
Sale contracts	—	—	—	—	—
TBAs, net	<u>\$ 4,116,000</u>	<u>\$ 4,238,881</u>	<u>\$ 4,240,371</u>	<u>\$ 3,405</u>	<u>\$ (1,915)</u>

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

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

(3) Market value represents the current market value of the TBA (or of the underlying Agency RMBS) as of period-end.

(4) Net carrying value represents the difference between the market value of the TBA as of period-end and its cost basis, and is reported in derivative assets / (liabilities), at fair value, in the condensed consolidated balance sheets.

*Futures.* The Company may use a variety of types of futures independently, or in conjunction with other derivative and non-derivative instruments, in order to mitigate risks. The following table summarizes certain characteristics of the Company's futures as of June 30, 2022 and December 31, 2021:

(dollars in thousands)	June 30, 2022			December 31, 2021		
	Notional Amount	Carrying Value	Weighted Average Days to Expiration	Notional Amount	Carrying Value	Weighted Average Days to Expiration
<b>Type &amp; Maturity</b>						
U.S. Treasury futures - 2 year	\$ (730,000)	\$ —	97	\$ —	\$ —	0
U.S. Treasury futures - 5 year	(3,369,200)	—	97	—	—	0
U.S. Treasury futures - 10 year	(2,988,300)	—	92	687,900	1,809	90
U.S. Treasury futures - 20 year	(413,000)	—	92	—	—	0
Federal Funds futures - 30 day	(2,000,160)	—	215	—	—	0
Eurodollar futures - 3 month						
≤ 1 year	(5,394,500)	—	174	(3,582,000)	15,121	213
> 1 and ≤ 2 years	(1,832,000)	—	549	(2,269,500)	14,952	560
> 2 and ≤ 3 years	—	—	0	(666,000)	3,480	854
Total futures	<u>\$ (16,727,160)</u>	<u>\$ —</u>	<u>185</u>	<u>\$ (5,829,600)</u>	<u>\$ 35,362</u>	<u>370</u>

*Interest Rate Swap Agreements.* The Company may use interest rate swaps independently, or in conjunction with other derivative and non-derivative instruments, in order to mitigate risks. As of June 30, 2022 and December 31, 2021, the Company held the following interest rate swaps that were utilized as economic hedges of interest rate exposure (or duration) whereby the Company receives interest at a floating interest rate (OIS or SOFR):

(notional in thousands)

Swaps Maturity	June 30, 2022			
	Notional Amount	Weighted Average Fixed Pay Rate	Weighted Average Receive Rate	Weighted Average Maturity (Years)
2023	\$ 300,584	0.793 %	1.500 %	1.24
2024	499,213	0.948 %	1.500 %	1.55
2025	727,531	2.120 %	1.500 %	3.22
2026	500,819	0.767 %	1.500 %	4.22
2027 and Thereafter	<u>6,009,464</u>	<u>2.107 %</u>	<u>1.500 %</u>	<u>8.39</u>
Total	<u>\$ 8,037,611</u>	<u>1.904 %</u>	<u>1.500 %</u>	<u>6.97</u>

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

(notional in thousands)

Swaps Maturities	Notional Amount	December 31, 2021			Weighted Average Maturity (Years)
		Weighted Average Fixed Pay Rate	Weighted Average Receive Rate	Weighted Average Maturity (Years)	
2022	\$ 7,415,818	0.420 %	0.070 %	0.66	
2023	2,582,084	0.113 %	0.068 %	1.51	
2024	—	— %	— %	0.00	
2025	377,610	1.030 %	0.050 %	3.96	
2026 and Thereafter	2,782,057	0.652 %	0.063 %	6.56	
Total	<u>\$ 13,157,569</u>	0.213 %	0.067 %	2.17	

Additionally, as of June 30, 2022 and December 31, 2021, the Company held the following interest rate swaps in order to mitigate mortgage interest rate exposure (or duration) risk whereby the Company pays interest at a floating interest rate (OIS or SOFR):

(notional in thousands)

Swaps Maturities	Notional Amount <sup>(1)</sup>	June 30, 2022			Weighted Average Maturity (Years) <sup>(2)</sup>
		Weighted Average Pay Rate <sup>(2)</sup>	Weighted Average Fixed Receive Rate <sup>(2)</sup>	Weighted Average Maturity (Years) <sup>(2)</sup>	
2023	\$ —	— %	— %	0.00	
2024	—	— %	— %	0.00	
2025	—	— %	— %	0.00	
2026	1,626,290	1.500 %	0.982 %	4.39	
2027 and Thereafter	5,186,435	1.526 %	1.619 %	9.31	
Total	<u>\$ 6,812,725</u>	1.523 %	1.540 %	8.70	

(notional in thousands)

Swaps Maturities	Notional Amount	December 31, 2021			Weighted Average Maturity (Years)
		Weighted Average Pay Rate	Weighted Average Fixed Receive Rate	Weighted Average Maturity (Years)	
2022	\$ 2,221,658	0.070 %	0.118 %	1.19	
2023	—	— %	— %	0.00	
2024	—	— %	— %	0.00	
2025	—	— %	— %	0.00	
2026 and Thereafter	5,008,073	0.058 %	1.049 %	10.00	
Total	<u>\$ 7,229,731</u>	0.062 %	0.763 %	7.29	

(1) Notional amount includes \$900.0 million in forward starting interest rate swaps as of June 30, 2022.

(2) Weighted averages exclude forward starting interest rate swaps. As of June 30, 2022, the weighted average fixed receive rate on forward starting interest rate swaps was 2.7%.

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

*Interest Rate Swaptions.* The Company may use interest rate swaptions (which provide the option to enter into interest rate swap agreements for a predetermined notional amount, stated term and pay and receive interest rates in the future) independently, or in conjunction with other derivative and non-derivative instruments, in order to mitigate risks. As of June 30, 2022 and December 31, 2021, the Company had the following outstanding interest rate swaptions:

<b>June 30, 2022</b>								
(notional and dollars in thousands)		<b>Option</b>			<b>Underlying Swap</b>			
<b>Swaption</b>	<b>Expiration</b>	<b>Cost Basis</b>	<b>Fair Value</b>	<b>Average Months to Expiration</b>	<b>Notional Amount</b>	<b>Average Fixed Rate <sup>(1)</sup></b>	<b>Average Term (Years)</b>	
<b>Purchase contracts:</b>								
Receiver	< 6 Months	\$ 1,229	\$ 626	1.07	\$ 100,000	2.60 %	10.0	
<b>Sale contracts:</b>								
Payer	≥ 6 Months	\$ (35,778)	\$ (82,834)	18.19	\$ (840,000)	1.86 %	10.0	
Receiver	< 6 Months	\$ (400)	\$ (86)	1.07	\$ (100,000)	2.20 %	10.0	
Receiver	≥ 6 Months	\$ (35,778)	\$ (11,392)	18.92	\$ (840,000)	1.86 %	10.0	
<b>December 31, 2021</b>								
(notional and dollars in thousands)		<b>Option</b>			<b>Underlying Swap</b>			
<b>Swaption</b>	<b>Expiration</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Average Months to Expiration</b>	<b>Notional Amount</b>	<b>Average Fixed Rate <sup>(1)</sup></b>	<b>Average Term (Years)</b>	
<b>Purchase contracts:</b>								
Payer	< 6 Months	\$ 11,314	\$ 3,539	5.33	\$ 886,000	2.26 %	10.0	
<b>Sale contracts:</b>								
Payer	≥ 6 Months	\$ (26,329)	\$ (23,958)	17.79	\$ (780,000)	1.72 %	10.0	
Receiver	< 6 Months	\$ (10,640)	\$ (6,856)	5.11	\$ (1,087,000)	1.26 %	10.0	
Receiver	≥ 6 Months	\$ (26,329)	\$ (24,468)	18.91	\$ (780,000)	1.72 %	10.0	

(1) As of June 30, 2022, 63.8% and 36.2% of the underlying swap floating rates were tied to SOFR and 3-Month LIBOR, respectively. As of December 31, 2021, 100.0% of the underlying swap floating rates were tied to 3-Month LIBOR.

**Credit Risk**

The Company's exposure to credit losses on its Agency RMBS portfolio is limited due to implicit or explicit backing from either a GSE or a U.S. government agency. The payment of principal and interest on the Freddie Mac and Fannie Mae mortgage-backed securities are guaranteed by those respective agencies, and the payment of principal and interest on the Ginnie Mae mortgage-backed securities are backed by the full faith and credit of the U.S. government.

In future periods, the Company could enhance its credit risk protection, enter into further paired derivative positions, including both long and short credit default swaps, and/or seek opportunistic trades in the event of a market disruption (see discussion under "Non-Risk Management Activities" below). The Company also has processes and controls in place to monitor, analyze, manage and mitigate its credit risk with respect to non-Agency securities.

Derivative financial instruments contain an element of credit risk if counterparties are unable to meet the terms of the agreements. Credit risk associated with derivative financial instruments is measured as the net replacement cost should the counterparties that owe the Company under such contracts completely fail to perform under the terms of these contracts, assuming there are no recoveries of underlying collateral, as measured by the market value of the derivative financial instruments. As of June 30, 2022, the fair value of derivative financial instruments as an asset and liability position was \$29.3 million and \$110.8 million, respectively.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)**

The Company attempts to mitigate its credit risk exposure on derivative financial instruments by limiting its counterparties to banks and financial institutions that meet established internal credit guidelines. The Company also seeks to spread its credit risk exposure across multiple counterparties in order to reduce its exposure to any single counterparty. Additionally, the Company reduces credit risk on the majority of its derivative instruments by entering into agreements that permit the closeout and netting of transactions with the same counterparty or clearing agency upon the occurrence of certain events. To further mitigate the risk of counterparty default, the Company maintains collateral agreements with certain of its counterparties and clearing agencies, which require both parties to maintain cash deposits in the event the fair values of the derivative financial instruments exceed established thresholds. The Company's centrally cleared interest rate swaps and exchange-traded futures and options on futures require the Company to post an "initial margin" amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the derivative instrument's maximum estimated single-day price movement. The Company also exchanges "variation margin" based upon daily changes in fair value, as measured by the exchange. The exchange of variation margin is considered a settlement of the derivative instrument, as opposed to pledged collateral. Accordingly, the Company accounts for the receipt or payment of variation margin as a direct reduction to the carrying value of the centrally cleared or exchange-traded derivative asset or liability.

**Note 8. Reverse Repurchase Agreements**

As of June 30, 2022 and December 31, 2021, the Company had \$159.2 million and \$129.2 million in amounts due to counterparties as collateral for reverse repurchase agreements that could be pledged, delivered or otherwise used, with a fair value of \$159.0 million and \$134.7 million, respectively.

**Note 9. Offsetting Assets and Liabilities**

Certain of the Company's repurchase agreements are governed by underlying agreements that provide for a right of setoff in the event of default by either party to the agreement. The Company also has netting arrangements in place with all derivative counterparties pursuant to standard documentation developed by the International Swap and Derivatives Association, or ISDA, or central clearing exchange agreements. The Company and the counterparty or clearing agency are required to post cash collateral based upon the net underlying market value of the Company's open positions with the counterparty. Additionally, the Company's centrally cleared interest rate swaps and exchange-traded futures and options on futures require the Company to post an initial margin amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the derivative instrument's maximum estimated single-day price movement. The Company also exchanges variation margin based upon daily changes in fair value, as measured by the exchange.

Under U.S. GAAP, if the Company has a valid right of setoff, it may offset the related asset and liability and report the net amount. Based on rules governing certain central clearing and exchange-trading activities, the exchange of variation margin is considered a settlement of the derivative instrument, as opposed to pledged collateral. Accordingly, the Company accounts for the receipt or payment of variation margin on Chicago Mercantile Exchange, or CME, and London Clearing House, or LCH, cleared positions as a direct reduction to the carrying value of the centrally cleared or exchange-traded derivative asset or liability. The receipt or payment of initial margin is accounted for separate from the derivative asset or liability.

Reverse repurchase agreements and repurchase agreements with the same counterparty and the same maturity are presented net in the Company's condensed consolidated balance sheets when the terms of the agreements meet the criteria to permit netting. The Company reports cash flows on repurchase agreements as financing activities and cash flows on reverse repurchase agreements as investing activities in the condensed consolidated statements of cash flows. The Company presents derivative assets and liabilities (other than centrally cleared or exchange-traded derivative instruments) subject to master netting arrangements or similar agreements on a net basis, based on derivative type and counterparty, in its condensed consolidated balance sheets. Separately, the Company presents cash collateral subject to such arrangements (other than variation margin on centrally cleared or exchange-traded derivative instruments) on a net basis, based on counterparty, in its condensed consolidated balance sheets. However, the Company does not offset repurchase agreements, reverse repurchase agreements or derivative assets and liabilities (other than centrally cleared or exchange-traded derivative instruments) with the associated cash collateral on its condensed consolidated balance sheets.

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

The following tables present information about the Company's assets and liabilities that are subject to master netting arrangements or similar agreements and can potentially be offset on the Company's condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021:

	June 30, 2022					
	(in thousands)	Gross Amounts Not Offset with Financial Assets (Liabilities) in the Balance Sheets <sup>(1)</sup>				
		Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Balance Sheets	Financial Instruments	Cash Collateral (Received) Pledged
<b>Assets</b>						
Derivative assets	\$ 581,719	\$ (552,389)	\$ 29,330	\$ (29,330)	\$ —	\$ —
Reverse repurchase agreements	158,971	—	158,971	—	(158,971)	—
<b>Total Assets</b>	<b>\$ 740,690</b>	<b>\$ (552,389)</b>	<b>\$ 188,301</b>	<b>\$ (29,330)</b>	<b>\$ (158,971)</b>	<b>\$ —</b>
<b>Liabilities</b>						
Repurchase agreements	\$ (7,958,247)	\$ —	\$ (7,958,247)	\$ 7,958,247	\$ —	\$ —
Derivative liabilities	(663,153)	552,389	(110,764)	29,330	—	(81,434)
<b>Total Liabilities</b>	<b>\$ (8,621,400)</b>	<b>\$ 552,389</b>	<b>\$ (8,069,011)</b>	<b>\$ 7,987,577</b>	<b>\$ —</b>	<b>\$ (81,434)</b>
<b>December 31, 2021</b>						
	(in thousands)	Gross Amounts Not Offset with Financial Assets (Liabilities) in the Balance Sheets <sup>(1)</sup>				
		Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Balance Sheets	Financial Instruments	Cash Collateral (Received) Pledged
<b>Assets</b>						
Derivative assets	\$ 215,084	\$ (134,950)	\$ 80,134	\$ (53,658)	\$ —	\$ 26,476
Reverse repurchase agreements	134,682	—	134,682	—	(129,227)	5,455
<b>Total Assets</b>	<b>\$ 349,766</b>	<b>\$ (134,950)</b>	<b>\$ 214,816</b>	<b>\$ (53,658)</b>	<b>\$ (129,227)</b>	<b>\$ 31,931</b>
<b>Liabilities</b>						
Repurchase agreements	\$ (7,656,445)	\$ —	\$ (7,656,445)	\$ 7,656,445	\$ —	\$ —
Derivative liabilities	(188,608)	134,950	(53,658)	53,658	—	—
<b>Total Liabilities</b>	<b>\$ (7,845,053)</b>	<b>\$ 134,950</b>	<b>\$ (7,710,103)</b>	<b>\$ 7,710,103</b>	<b>\$ —</b>	<b>\$ —</b>

(1) Amounts presented are limited in total to the net amount of assets or liabilities presented in the condensed consolidated balance sheets by instrument. Excess cash collateral or financial assets that are pledged to counterparties may exceed the financial liabilities subject to a master netting arrangement or similar agreement, or counterparties may have pledged excess cash collateral to the Company that exceed the corresponding financial assets. These excess amounts are excluded from the table above, although separately reported within restricted cash, due from counterparties, or due to counterparties in the Company's condensed consolidated balance sheets.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)****Note 10. Fair Value****Fair Value Measurements**

ASC 820, *Fair Value Measurements and Disclosures*, or ASC 820, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices available in active markets (*i.e.*, observable inputs) and the lowest priority to data lacking transparency (*i.e.*, unobservable inputs). Additionally, ASC 820 requires an entity to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring fair value of a liability.

ASC 820 establishes a three-level hierarchy to be used when measuring and disclosing fair value. An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three levels:

- |                |  |
|----------------|--|
| <b>Level 1</b> | Inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date under current market conditions. Additionally, the entity must have the ability to access the active market and the quoted prices cannot be adjusted by the entity.  |
| <b>Level 2</b> | Inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full-term of the assets or liabilities.   |
| <b>Level 3</b> | Unobservable inputs are supported by little or no market activity. The unobservable inputs represent the assumptions that market participants would use to price the assets and liabilities, including risk. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation. |

The following are descriptions of the valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models and significant assumptions utilized.

*Available-for-sale securities.* The Company holds a portfolio of AFS securities that are carried at fair value in the condensed consolidated balance sheets and primarily comprised of Agency RMBS and non-Agency securities. The Company determines the fair value of its Agency RMBS based upon prices obtained from third-party brokers and pricing vendors received using bid price, which are deemed indicative of market activity. The third-party pricing vendors use pricing models that generally incorporate such factors as coupons, primary and secondary mortgage rates, rate reset period, issuer, prepayment speeds, credit enhancements and expected life of the security. In determining the fair value of its non-Agency securities, management judgment may be used to arrive at fair value that considers prices obtained from third-party pricing vendors and other applicable market data. If observable market prices are not available or insufficient to determine fair value due principally to illiquidity in the marketplace, then fair value is based upon models that are primarily based on observable market-based inputs but also include unobservable market data inputs (including prepayment speeds, delinquency levels, and credit losses).

The Company classified 99.0% and 1.0% of its AFS securities as Level 2 and Level 3 fair value assets, respectively, at June 30, 2022.

*Mortgage servicing rights.* The Company holds a portfolio of MSR that are carried at fair value on the condensed consolidated balance sheets. The Company determines fair value of its MSR based on prices obtained from third-party pricing vendors. Although MSR transactions may be observable in the marketplace, the details of those transactions are not necessarily reflective of the value of the Company's MSR portfolio. Third-party vendors use both observable market data and unobservable market data (including forecasted prepayment speeds, delinquency levels, option-adjusted spread, or OAS, and cost to service) as inputs into models, which help to inform their best estimates of fair value market price. As a result, the Company classified 100% of its MSR as Level 3 fair value assets at June 30, 2022.

*Derivative instruments.* The Company may enter into a variety of derivative financial instruments as part of its hedging strategies. The Company principally executes over-the-counter, or OTC, derivative contracts, such as interest rate swaps and swaptions. The Company utilizes third-party brokers to value its financial derivative instruments. The Company classified 100% of the interest rate swaps and swaptions reported at fair value as Level 2 at June 30, 2022.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)**

The Company may also enter into certain other derivative financial instruments, such as inverse interest-only securities, TBAs, futures and options on futures. The Company utilizes third-party pricing vendors to value inverse interest-only securities, as these instruments are similar in form to the Company's AFS securities. The Company classified 100% of its inverse interest-only securities at fair value as Level 2 at June 30, 2022. TBAs, futures and options on futures are considered to be active markets such that participants transact with sufficient frequency and volume to provide transparent pricing information for identical instruments. The Company utilizes third-party pricing vendors to value TBAs, futures and options on futures. The Company reported 100% of its TBAs and futures as Level 1 as of June 30, 2022. The Company did not hold any options on futures at June 30, 2022.

The Company's policy is to minimize credit exposure related to financial derivatives used for hedging by limiting the hedge counterparties to major banks, financial institutions, exchanges, and private investors who meet established capital and credit guidelines as well as by limiting the amount of exposure to any individual counterparty.

The Company has netting arrangements in place with all derivative counterparties pursuant to standard documentation developed by ISDA or central clearing exchange agreements. Additionally, both the Company and the counterparty or clearing agency are required to post cash margin based upon the net underlying market value of the Company's open positions with the counterparty. Posting of cash margin typically occurs daily, subject to certain dollar thresholds. Due to the existence of netting arrangements, as well as frequent cash margin posting at low posting thresholds, credit exposure to the Company and/or to the counterparty or clearing agency is considered materially mitigated. Based on the Company's assessment, there is no requirement for any additional adjustment to derivative valuations specifically for credit.

The following tables display the Company's assets and liabilities measured at fair value on a recurring basis. The Company often economically hedges the fair value change of its assets or liabilities with derivatives and other financial instruments. The tables below display the hedges separately from the hedged items, and therefore do not directly display the impact of the Company's risk management activities:

(in thousands)	Recurring Fair Value Measurements				
	Level 1	Level 2	Level 3	Total	
<b>Assets:</b>					
Available-for-sale securities	\$ —	\$ 8,701,947	\$ 87,490	\$ 8,789,437	
Mortgage servicing rights	—	—	3,226,191	3,226,191	
Derivative assets	4,407	24,923	—	29,330	
<b>Total assets</b>	<u>\$ 4,407</u>	<u>\$ 8,726,870</u>	<u>\$ 3,313,681</u>	<u>\$ 12,044,958</u>	
<b>Liabilities:</b>					
Derivative liabilities	\$ 16,537	\$ 94,227	\$ —	\$ 110,764	
<b>Total liabilities</b>	<u>\$ 16,537</u>	<u>\$ 94,227</u>	<u>\$ —</u>	<u>\$ 110,764</u>	

(in thousands)	Recurring Fair Value Measurements				
	Level 1	Level 2	Level 3	Total	
<b>Assets:</b>					
Available-for-sale securities	\$ —	\$ 7,149,399	\$ 12,304	\$ 7,161,703	
Mortgage servicing rights	—	—	2,191,578	2,191,578	
Derivative assets	38,767	41,367	—	80,134	
<b>Total assets</b>	<u>\$ 38,767</u>	<u>\$ 7,190,766</u>	<u>\$ 2,203,882</u>	<u>\$ 9,433,415</u>	
<b>Liabilities:</b>					
Derivative liabilities	\$ 1,915	\$ 51,743	\$ —	\$ 53,658	
<b>Total liabilities</b>	<u>\$ 1,915</u>	<u>\$ 51,743</u>	<u>\$ —</u>	<u>\$ 53,658</u>	

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)**

The Company may be required to measure certain assets or liabilities at fair value from time to time. These periodic fair value measures typically result from application of certain impairment measures under U.S. GAAP. These items would constitute nonrecurring fair value measures under ASC 820. As of June 30, 2022, the Company did not have any assets or liabilities measured at fair value on a nonrecurring basis in the periods presented.

The valuation of Level 3 instruments requires significant judgment by the third-party pricing vendors and/or management. The third-party pricing vendors and/or management rely on inputs such as market price quotations from market makers (either market or indicative levels), original transaction price, recent transactions in the same or similar instruments, and changes in financial ratios or cash flows to determine fair value. Level 3 instruments may also be discounted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the third-party pricing vendors in the absence of market information. Assumptions used by the third-party pricing vendors due to lack of observable inputs may significantly impact the resulting fair value and therefore the Company's condensed consolidated financial statements.

The Company's valuation committee reviews all valuations that are based on pricing information received from third-party pricing vendors. As part of this review, prices are compared against other pricing or input data points in the marketplace, along with internal valuation expertise, to ensure the pricing is reasonable. In addition, the Company performs back-testing of pricing information to validate price information and identify any pricing trends of a third-party pricing vendors.

In determining fair value, third-party pricing vendors use various valuation approaches, including market and income approaches. Inputs that are used in determining fair value of an instrument may include pricing information, credit data, volatility statistics, and other factors. In addition, inputs can be either observable or unobservable.

The availability of observable inputs can vary by instrument and is affected by a wide variety of factors, including the type of instrument, whether the instrument is new and not yet established in the marketplace and other characteristics particular to the instrument. The third-party pricing vendor uses prices and inputs that are current as of the measurement date, including during periods of market dislocations. In periods of market dislocation, the availability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified to or from various levels within the fair value hierarchy.

Securities that are priced using third-party broker quotations are valued at the bid price (in the case of long positions) or the ask price (in the case of short positions) at the close of trading on the date as of which value is determined. Exchange-traded securities for which no bid or ask price is available are valued at the last traded price. OTC derivative contracts, including interest rate swap and swaption agreements, are valued by the Company using observable inputs, specifically quotations received from third-party brokers. Exchange-traded derivative instruments, including futures and options on futures, are valued based on quoted prices for identical instruments in active markets.

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

The following table presents the reconciliation for the Company's Level 3 assets measured at fair value on a recurring basis:

(in thousands)	Three Months Ended June 30, 2022		Six Months Ended June 30, 2022	
	Available-For-Sale Securities	Mortgage Servicing Rights	Available-For-Sale Securities	Mortgage Servicing Rights
	\$	\$	\$	\$
Beginning of period level 3 fair value	\$ 12,530	\$ 3,089,963	\$ 12,304	\$ 2,191,578
Gains (losses) included in net (loss) income:				
Realized	(405)	(113,715)	(1,273)	(228,004)
Unrealized	753 <sup>(1)</sup>	199,272 <sup>(2)</sup>	1,680 <sup>(1)</sup>	724,185 <sup>(2)</sup>
Reversal of (provision for) credit losses	(254)	—	1,127	—
Net gains (losses) included in net (loss) income	94	85,557	1,534	496,181
Other comprehensive loss	1,641	—	427	—
Purchases	79,600	59,945	79,600	544,750
Sales	(6,375)	—	(6,375)	—
Settlements	—	(9,274)	—	(6,318)
Gross transfers into level 3	—	—	—	—
Gross transfers out of level 3	—	—	—	—
End of period level 3 fair value	<u>\$ 87,490</u>	<u>\$ 3,226,191</u>	<u>\$ 87,490</u>	<u>\$ 3,226,191</u>
Change in unrealized gains or losses for the period included in earnings for assets held at the end of the reporting period	<u>\$ 753 <sup>(3)</sup></u>	<u>\$ 195,868 <sup>(4)</sup></u>	<u>\$ 1,680 <sup>(3)</sup></u>	<u>\$ 700,354 <sup>(4)</sup></u>
Change in unrealized gains or losses for the period included in other comprehensive (loss) income for assets held at the end of the reporting period	<u>\$ 2,395</u>	<u>\$ —</u>	<u>\$ 2,108</u>	<u>\$ —</u>

(1) The change in unrealized gains or losses on available-for-sale securities accounted for under the fair value option was recorded in (loss) gain on investment securities on the condensed consolidated statements of comprehensive loss.

(2) The change in unrealized gains or losses on MSR was recorded in gain (loss) on servicing asset on the condensed consolidated statements of comprehensive loss.

(3) The change in unrealized gains or losses on available-for-sale securities accounted for under the fair value option that were held at the end of the reporting period was recorded in (loss) gain on investment securities on the condensed consolidated statements of comprehensive loss.

(4) The change in unrealized gains or losses on MSR that were held at the end of the reporting period was recorded in gain (loss) on servicing asset on the condensed consolidated statements of comprehensive loss.

No transfers between Level 1, Level 2 or Level 3 were made during the six months ended June 30, 2022. Transfers between Levels are deemed to take place on the first day of the reporting period in which the transfer has taken place.

The Company used multiple third-party pricing vendors in the fair value measurement of its Level 3 AFS securities. The significant unobservable inputs used by the third-party pricing vendors included expected default, severity and discount rate. Significant increases (decreases) in any of the inputs in isolation may result in significantly lower (higher) fair value measurement.

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**Notes to the Condensed Consolidated Financial Statements (unaudited)**

The Company also used multiple third-party pricing vendors in the fair value measurement of its Level 3 MSR. The tables below present information about the significant unobservable market data used by the third-party pricing vendors as inputs into models utilized to inform their best estimates of the fair value measurement of the Company's MSR classified as Level 3 fair value assets at June 30, 2022 and December 31, 2021:

Valuation Technique	Unobservable Input	Range	Weighted Average <sup>(1)</sup>
Discounted cash flow	Constant prepayment speed	6.8% - 8.1%	7.4%
	Delinquency	0.8% - 0.8%	0.8%
	Option-adjusted spread	4.9% - 8.2%	5.0%
	Per loan annual cost to service	\$67.21 - \$80.55	\$67.64
December 31, 2021	Unobservable Input	Range	Weighted Average <sup>(1)</sup>
Discounted cash flow	Constant prepayment speed	10.0% - 17.9%	12.9%
	Delinquency	0.9% - 1.8%	1.3%
	Option-adjusted spread	4.6% - 9.2%	4.7%
	Per loan annual cost to service	\$66.04 - \$83.91	\$66.76

(1) Calculated by averaging the weighted average significant unobservable inputs used by the multiple third-party pricing vendors in the fair value measurement of MSR.

**Fair Value of Financial Instruments**

In accordance with ASC 820, the Company is required to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the condensed consolidated balance sheets, for which fair value can be estimated.

The following describes the Company's methods for estimating the fair value for financial instruments.

- AFS securities, MSR, and derivative assets and liabilities are recurring fair value measurements; carrying value equals fair value. See discussion of valuation methods and assumptions within the *Fair Value Measurements* section of this Note 10.
- Cash and cash equivalents and restricted cash have a carrying value which approximates fair value because of the short maturities of these instruments. The Company categorizes the fair value measurement of these assets as Level 1.
- Reverse repurchase agreements have a carrying value which approximates fair value due to their short-term nature. The Company categorizes the fair value measurement of these assets as Level 2.
- The carrying value of repurchase agreements and revolving credit facilities that mature in less than one year generally approximates fair value due to the short maturities. As of June 30, 2022, the Company had outstanding borrowings of \$796.6 million under revolving credit facilities that are considered long-term. The Company's long-term revolving credit facilities have floating rates based on an index plus a spread and the credit spread is typically consistent with those demanded in the market. Accordingly, the interest rates on these borrowings are at market and thus carrying value approximates fair value. The Company categorizes the fair value measurement of these liabilities as Level 2.
- Term notes payable are recorded at outstanding principal balance, net of any unamortized deferred debt issuance costs. In determining the fair value of term notes payable, management judgment may be used to arrive at fair value that considers prices obtained from third-party pricing vendors, broker quotes received and other applicable market data. If observable market prices are not available or insufficient to determine fair value due principally to illiquidity in the marketplace, then fair value is based upon internally developed models that are primarily based on observable market-based inputs but also include unobservable market data inputs (including prepayment speeds, delinquency levels, and credit losses). The Company categorizes the fair value measurement of these liabilities as Level 2.
- Convertible senior notes are carried at their unpaid principal balance, net of any unamortized deferred issuance costs. The Company estimates the fair value of its convertible senior notes using the market transaction price nearest to June 30, 2022. The Company categorizes the fair value measurement of these assets as Level 2.

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**Notes to the Condensed Consolidated Financial Statements (unaudited)**

The following table presents the carrying values and estimated fair values of assets and liabilities that are required to be recorded or disclosed at fair value at June 30, 2022 and December 31, 2021:

(in thousands)	June 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Available-for-sale securities	\$ 8,789,437	\$ 8,789,437	\$ 7,161,703	\$ 7,161,703
Mortgage servicing rights	\$ 3,226,191	\$ 3,226,191	\$ 2,191,578	\$ 2,191,578
Cash and cash equivalents	\$ 511,889	\$ 511,889	\$ 1,153,856	\$ 1,153,856
Restricted cash	\$ 627,725	\$ 627,725	\$ 934,814	\$ 934,814
Derivative assets	\$ 29,330	\$ 29,330	\$ 80,134	\$ 80,134
Reverse repurchase agreements	\$ 158,971	\$ 158,971	\$ 134,682	\$ 134,682
Other assets	\$ 3,234	\$ 3,234	\$ 3,332	\$ 3,332
<b>Liabilities:</b>				
Repurchase agreements	\$ 7,958,247	\$ 7,958,247	\$ 7,656,445	\$ 7,656,445
Revolving credit facilities	\$ 825,761	\$ 825,761	\$ 420,761	\$ 420,761
Term notes payable	\$ 397,383	\$ 388,099	\$ 396,776	\$ 395,030
Convertible senior notes	\$ 281,711	\$ 257,106	\$ 424,827	\$ 435,774
Derivative liabilities	\$ 110,764	\$ 110,764	\$ 53,658	\$ 53,658

**Note 11. Repurchase Agreements**

As of June 30, 2022 and December 31, 2021, the Company had outstanding \$8.0 billion and \$7.7 billion, respectively, of repurchase agreements. Excluding the effect of the Company's interest rate swaps, the repurchase agreements had a weighted average borrowing rate of 1.48% and 0.24% and weighted average remaining maturities of 84 and 67 days as of June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022, none of the Company's repurchase agreements incorporated LIBOR as the referenced rate.

At June 30, 2022 and December 31, 2021, the Company's repurchase agreements had the following characteristics and remaining maturities:

(in thousands)	June 30, 2022				
	Collateral Type				Total Amount Outstanding
	Agency RMBS	Non-Agency Securities	Agency Derivatives	Mortgage Servicing Rights	
Within 30 days	\$ 2,342,564	\$ 23,880	\$ 6,818	\$ —	\$ 2,373,262
30 to 59 days	976,012	—	—	—	976,012
60 to 89 days	2,039,223	219	876	—	2,040,318
90 to 119 days	998,159	23,835	15,051	—	1,037,045
120 to 364 days	1,131,610	—	—	400,000	1,531,610
Total	<u>\$ 7,487,568</u>	<u>\$ 47,934</u>	<u>\$ 22,745</u>	<u>\$ 400,000</u>	<u>\$ 7,958,247</u>
Weighted average borrowing rate	1.27 %	2.44 %	1.89 %	5.12 %	1.48 %

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

(in thousands)	December 31, 2021				
	Collateral Type				
	Agency RMBS	Non-Agency Securities	Agency Derivatives	Mortgage Servicing Rights	Total Amount Outstanding
Within 30 days	\$ 1,617,186	\$ —	\$ 10,097	\$ —	\$ 1,627,283
30 to 59 days	1,807,544	—	—	—	1,807,544
60 to 89 days	1,979,717	171	1,168	—	1,981,056
90 to 119 days	1,240,915	—	8,520	—	1,249,435
120 to 364 days	849,868	—	16,259	125,000	991,127
Total	<u>\$ 7,495,230</u>	<u>\$ 171</u>	<u>\$ 36,044</u>	<u>\$ 125,000</u>	<u>\$ 7,656,445</u>
Weighted average borrowing rate	0.17 %	1.24 %	0.74 %	4.00 %	0.24 %

The following table summarizes assets at carrying values that are pledged or restricted as collateral for the future payment obligations of the Company's repurchase agreements:

(in thousands)	June 30, 2022		December 31, 2021	
	Available-for-sale securities, at fair value	\$ 7,420,521	\$ 7,009,449	\$ 725,985
Mortgage servicing rights, at fair value <sup>(1)</sup>		1,089,448		362,937
Restricted cash		—	111,724	747,779
Due from counterparties		23,336	30,764	
Derivative assets, at fair value		—	39,609	
Total	<u>\$ 9,007,966</u>	<u>\$ 8,553,586</u>		

(1) MSR repurchase agreements are secured by a VFN issued in connection with the Company's securitization of MSR, which is collateralized by the Company's MSR.

Although the transactions under repurchase agreements represent committed borrowings until maturity, the respective lender retains the right to mark the underlying collateral to fair value. A reduction in the value of pledged assets would require the Company to provide additional collateral or fund margin calls.

The following table summarizes certain characteristics of the Company's repurchase agreements and counterparty concentration at June 30, 2022 and December 31, 2021:

(dollars in thousands)	June 30, 2022				December 31, 2021			
	Amount Outstanding	Net Counterparty Exposure <sup>(1)</sup>	Percent of Equity	Weighted Average Days to Maturity	Amount Outstanding	Net Counterparty Exposure <sup>(1)</sup>	Percent of Equity	Weighted Average Days to Maturity
Credit Suisse	\$ 423,880	\$ 94,723	4 %	212	\$ 125,000	\$ 353,975	13 %	181
All other counterparties <sup>(2)</sup>	7,534,367	455,350	18 %	77	7,531,445	314,258	11 %	65
Total	<u>\$ 7,958,247</u>	<u>\$ 550,073</u>			<u>\$ 7,656,445</u>	<u>\$ 668,233</u>		

(1) Represents the net carrying value of the assets sold under agreements to repurchase, including accrued interest plus any cash or assets on deposit to secure the repurchase obligation, less the amount of the repurchase liability, including accrued interest.

(2) Represents amounts outstanding with 20 and 19 counterparties at June 30, 2022 and December 31, 2021, respectively.

The Company does not anticipate any defaults by its repurchase agreement counterparties. There can be no assurance, however, that any such default or defaults will not occur.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)****Note 12. Revolving Credit Facilities**

To finance MSR assets and related servicing advance obligations, the Company has entered into revolving credit facilities collateralized by the value of the MSR and/or servicing advances pledged. As of June 30, 2022 and December 31, 2021, the Company had outstanding short- and long-term borrowings under revolving credit facilities of \$825.8 million and \$420.8 million with a weighted average borrowing rate of 4.93% and 3.46% and weighted average remaining maturities of 1.6 and 1.2 years, respectively. As of June 30, 2022, the Company's revolving credit facilities incorporated a variety of referenced rates. Any facilities that incorporate LIBOR as either the referenced rate or an alternative rate if the primary benchmark rate is unavailable have provisions in place that provide for an alternative to LIBOR upon its phase-out. See Note 2 - *Basis of Presentation and Significant Accounting Policies* for further discussion of the transition away from LIBOR.

At June 30, 2022 and December 31, 2021, borrowings under revolving credit facilities had the following remaining maturities:

(in thousands)	June 30, 2022	December 31, 2021
Within 30 days	\$ —	\$ —
30 to 59 days	—	—
60 to 89 days	—	—
90 to 119 days	29,200	—
120 to 364 days	—	274,511
One year and over	796,561	146,250
<b>Total</b>	<b>\$ 825,761</b>	<b>\$ 420,761</b>

Although the transactions under revolving credit facilities represent committed borrowings from the time of funding until maturity, the respective lender retains the right to mark the underlying collateral to fair value. A reduction in the value of pledged assets below a designated threshold would require the Company to provide additional collateral or pay down the facility. As of June 30, 2022 and December 31, 2021, MSR with a carrying value of \$1.6 billion and \$904.8 million, respectively, was pledged as collateral for the Company's future payment obligations under its MSR revolving credit facilities. As of June 30, 2022 and December 31, 2021, servicing advances with a carrying value of \$34.1 million and \$33.8 million, respectively, were pledged as collateral for the Company's future payment obligations under its servicing advance revolving credit facility. The Company does not anticipate any defaults by its revolving credit facility counterparties, although there can be no assurance that any such default or defaults will not occur.

**Note 13. Term Notes Payable**

The debt issued in connection with the Company's on-balance sheet securitization is classified as term notes payable and carried at outstanding principal balance, which was \$400.0 million as of both June 30, 2022 and December 31, 2021, net of any unamortized deferred debt issuance costs, on the Company's condensed consolidated balance sheets. As of June 30, 2022 and December 31, 2021, the outstanding amount due on term notes payable was \$397.4 million and \$396.8 million, net of deferred debt issuance costs, with a weighted average interest rate of 4.42% and 2.90% and weighted average remaining maturities of 2.0 years and 2.5 years. The Company's term notes incorporate LIBOR as the referenced rate and mature after the phase-out of LIBOR. However, the related agreements have provisions in place that provide for an alternative to LIBOR upon its phase-out. See Note 2 - *Basis of Presentation and Significant Accounting Policies* for further discussion of the transition away from LIBOR.

At June 30, 2022 and December 31, 2021, the Company pledged MSR with a carrying value of \$500.0 million and \$500.0 million and weighted average underlying loan coupon of 3.30% and 3.36%, respectively, as collateral for term notes payable. Additionally, as of June 30, 2022 and December 31, 2021, \$0.2 million and \$0.2 million of cash was held in restricted accounts as collateral for the future payment obligations of outstanding term notes payable, respectively.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)****Note 14. Convertible Senior Notes**

In January 2017, the Company closed an underwritten public offering of \$287.5 million aggregate principal amount of convertible senior notes due 2022 (“2022 notes”). The net proceeds from the offering were approximately \$282.2 million after deducting underwriting discounts and estimated offering expenses payable by the Company. The Company used a portion of the net proceeds from the offering of 2026 notes (defined below) to fund the repurchase via privately negotiated transactions of \$143.7 million principal amount of its 2022 notes. As of December 31, 2021, \$143.8 million principal amount of the 2022 notes remained outstanding, and these remaining 2022 notes matured pursuant to their terms in January 2022. The 2022 notes were unsecured, paid interest semiannually at a rate of 6.25% per annum and were convertible at the option of the holder into shares of the Company’s common stock. As of December 31, 2021, the 2022 notes had a conversion rate of 63.2040 shares of common stock per \$1,000 principal amount of the notes.

In February 2021, the Company closed an underwritten public offering of \$287.5 million aggregate principal amount of convertible senior notes due 2026 (“2026 notes”). The net proceeds from the offering were approximately \$279.9 million after deducting underwriting discounts and estimated offering expenses payable by the Company. The 2026 notes are unsecured, pay interest semiannually at a rate of 6.25% per annum and are convertible at the option of the holder into shares of the Company’s common stock. As of June 30, 2022 and December 31, 2021, the 2026 notes had a conversion rate of 135.5014 and 135.5014 shares of common stock per \$1,000 principal amount of the notes, respectively. The 2026 notes will mature in January 2026, unless earlier converted or repurchased in accordance with their terms. The Company does not have the right to redeem the 2026 notes prior to maturity, but may repurchase the 2026 notes in open market or privately negotiated transactions at the same or differing price without giving prior notice to or obtaining any consent of the holders. The Company may also be required to repurchase the notes from holders under certain circumstances.

The aggregate outstanding amount due on the 2026 notes as of June 30, 2022 and the 2022 notes and 2026 notes as of December 31, 2021 was \$281.7 million and \$424.8 million, respectively, net of deferred issuance costs.

**Note 15. Commitments and Contingencies**

The following represent the material commitments and contingencies of the Company as of June 30, 2022:

*Legal and regulatory.* From time to time, the Company may be subject to liability under laws and government regulations and various claims and legal actions arising in the ordinary course of business. Under ASC 450, *Contingencies*, or ASC 450, liabilities are established for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts established or the range of reasonably possible loss disclosed for those claims.

As previously disclosed, on July 15, 2020, the Company provided PRCM Advisers with a notice of termination of the Management Agreement for “cause” in accordance with Section 15(a) of the Management Agreement. The Company terminated the Management Agreement for “cause” on the basis of certain material breaches and certain events of gross negligence on the part of PRCM Advisers in the performance of its duties under the Management Agreement. On July 21, 2020, PRCM Advisers filed a complaint against the Company in the United States District Court for the Southern District of New York, or the Court. Subsequently, Pine River Domestic Management L.P. and Pine River Capital Management L.P. were added as plaintiffs to the matter. As amended, the complaint, or the Federal Complaint, alleges, among other things, the misappropriation of trade secrets in violation of both the Defend Trade Secrets Act and New York common law, breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition and business practices, unjust enrichment, conversion, and tortious interference with contract. The Federal Complaint seeks, among other things, an order enjoining the Company from making any use of or disclosing PRCM Advisers’ trade secret, proprietary, or confidential information; damages in an amount to be determined at a hearing and/or trial; disgorgement of the Company’s wrongfully obtained profits; and fees and costs incurred by the plaintiffs in pursuing the action. The Company has filed its answer to the Federal Complaint and made counterclaims against PRCM Advisers and Pine River Capital Management L.P. On May 5, 2022, the plaintiffs filed a motion for judgement on the pleadings, seeking judgement in their favor on all but one of the Company’s counterclaims and on one of the Company’s affirmative defenses. The Company has opposed the motion for judgement on the pleadings, which is pending with the Court. Discovery has commenced and is ongoing. The Company’s board of directors believes the Federal Complaint is without merit and that the Company has fully complied with the terms of the Management Agreement.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)**

As of June 30, 2022, the Company's condensed consolidated financial statements do not recognize a contingency liability or disclose a range of reasonably possible loss under ASC 450 because management does not believe that a loss or expense related to the Federal Complaint is probable or reasonably estimable. The specific factors that limit the Company's ability to reasonably estimate a loss or expense related to the Federal Complaint include that the matter is in early stages and no amount of damages has been specified. If and when management believes losses associated with the Federal Complaint are a probable future event that may result in a loss or expense to the Company and the loss or expense is reasonably estimable, the Company will recognize a contingency liability and resulting loss in such period.

Based on information currently available, management is not aware of any other legal or regulatory claims that would have a material effect on the Company's condensed consolidated financial statements and therefore no accrual is required as of June 30, 2022.

**Note 16. Stockholders' Equity*****Redeemable Preferred Stock***

The following is a summary of the Company's series of cumulative redeemable preferred stock issued and outstanding as of June 30, 2022. In the event of a voluntary or involuntary liquidation, dissolution or winding up of the Company, each series of preferred stock will rank on parity with one another and rank senior to the Company's common stock with respect to the payment of the dividends and the distribution of assets.

(dollars in thousands)

Class of Stock	Issuance Date	Shares Issued and Outstanding	Carrying Value	Contractual Rate	Redemption Eligible Date <sup>(1)</sup>	Fixed to Floating Rate Conversion Date <sup>(2)</sup>	Floating Annual Rate
Series A	March 14, 2017	5,750,000	\$ 138,872	8.125 %	April 27, 2027	April 27, 2027	3M LIBOR + 5.660%
Series B	July 19, 2017	11,500,000	278,094	7.625 %	July 27, 2027	July 27, 2027	3M LIBOR + 5.352%
Series C	November 27, 2017	11,800,000	285,584	7.250 %	January 27, 2025	January 27, 2025	3M LIBOR + 5.011%
<b>Total</b>		<b>29,050,000</b>	<b>\$ 702,550</b>				

(1) Subject to the Company's right under limited circumstances to redeem the preferred stock earlier than the redemption eligible date disclosed in order to preserve its qualification as a REIT or following a change in control of the Company.

(2) The dividend rate on the fixed-to-floating rate redeemable preferred stock will remain at an annual fixed rate of the \$25.00 per share liquidation preference from the issuance date up to but not including the transition date disclosed within. Effective as of the fixed-to-floating rate conversion date and onward, dividends will accumulate on a floating rate basis according to the terms disclosed in footnote (3) below.

(3) On and after the fixed-to-floating rate conversion date, the dividend will accumulate and be payable quarterly at a percentage of the \$25.00 per share liquidation preference equal to an annual floating rate of three-month LIBOR plus the spread indicated within each preferred class. Each series that becomes callable at the time the stock begins to pay a LIBOR-based rate has existing LIBOR cessation fallback language.

For each series of preferred stock, the Company may redeem the stock on or after the redemption date in whole or in part, at any time or from time to time. The Company may also purchase shares of preferred stock from time to time in the open market by tender or in privately negotiated transactions. Each series of preferred stock has a par value of \$0.01 per share and a liquidation and redemption price of \$25.00, plus any accumulated and unpaid dividends thereon up to, but excluding, the redemption date. Through June 30, 2022, the Company had declared and paid all required quarterly dividends on the Company's preferred stock.

On February 4, 2021, the Company announced the redemption of all outstanding shares of the Company's 7.75% Series D Cumulative Redeemable Preferred Stock and 7.5% Series E Cumulative Redeemable Preferred Stock. The redemption date for each series was March 15, 2021 and holders of record as of such date received the redemption payment of \$25.00, plus any accumulated and unpaid dividends thereon up to, but excluding, the redemption date.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)*****Preferred Share Repurchase Program***

On June 22, 2022, the Company's Board of Directors authorized the repurchase of up to an aggregate of 5,000,000 shares of the Company's preferred stock, which includes each series shown in the table above under the heading Redeemable Preferred Stock. Preferred shares may be repurchased from time to time through privately negotiated transactions or open market transactions, pursuant to trading plans in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, or by any combination of such methods. The manner, price, number and timing of preferred share repurchases are subject to a variety of factors, including market conditions and applicable SEC rules. The preferred share repurchase program does not require the purchase of any minimum number of shares, and, subject to SEC rules, purchases may be commenced or suspended at any time without prior notice. The preferred share repurchase program does not have an expiration date. As of June 30, 2022, the Company had not yet repurchased any preferred shares.

***Common Stock******Public Offerings***

On July 14, 2021, the Company completed a public offering of 40,000,000 shares of its common stock. The underwriters purchased the shares from the Company at a price of \$6.42 per share, for net proceeds to the Company of approximately \$256.5 million after deducting offering expenses. The underwriters did not exercise any portion of their 30-day overallotment option to purchase up to 6,000,000 additional shares.

On October 28, 2021, the Company completed a public offering of 30,000,000 shares of its common stock. The underwriters purchased the shares from the Company at a price of \$6.468 per share, for net proceeds to the Company of approximately \$193.7 million after deducting offering expenses. The underwriters did not exercise any portion of their 30-day overallotment option to purchase up to 4,500,000 additional shares.

As of June 30, 2022, the Company had 344,433,109 shares of common stock outstanding. The following table presents a reconciliation of the common shares outstanding for the six months ended June 30, 2022 and 2021:

	<b>Number of common shares</b>
<b>Common shares outstanding, December 31, 2020</b>	273,703,882
Issuance of common stock	27,018
Non-cash equity award compensation <sup>(1)</sup>	(12,589)
<b>Common shares outstanding, June 30, 2021</b>	<u>273,718,311</u>
<b>Common shares outstanding, December 31, 2021</b>	343,911,324
Issuance of common stock	36,152
Non-cash equity award compensation <sup>(1)</sup>	485,633
<b>Common shares outstanding, June 30, 2022</b>	<u>344,433,109</u>

(1) See Note 17 - *Equity Incentive Plans* for further details regarding the Company's Equity Incentive Plans.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)***Distributions to Stockholders*

The following table presents cash dividends declared by the Company on its preferred and common stock during the three and six months ended June 30, 2022 and 2021:

(dollars in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Class of Stock	Amount	Per Share	Amount	Per Share	Amount	Per Share	Amount
Series A Preferred Stock	\$ 2,920	\$ 0.51	\$ 2,920	\$ 0.51	\$ 5,840	\$ 1.02	\$ 5,840	\$ 1.02
Series B Preferred Stock	\$ 5,481	\$ 0.48	\$ 5,480	\$ 0.48	\$ 10,961	\$ 0.96	\$ 10,960	\$ 0.96
Series C Preferred Stock	\$ 5,347	\$ 0.45	\$ 5,347	\$ 0.45	\$ 10,694	\$ 0.90	\$ 10,694	\$ 0.90
Series D Preferred Stock <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 969	\$ 0.32
Series E Preferred Stock <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,500	\$ 0.31
Common Stock	\$ 58,844	\$ 0.17	\$ 46,759	\$ 0.17	\$ 117,655	\$ 0.34	\$ 93,395	\$ 0.34

(1) On March 15, 2021, the Company redeemed all outstanding shares of the Company's Series D Preferred Stock and Series E Preferred Stock. Holders of record as of such date received the redemption payment of \$25.00, plus any accumulated and unpaid dividends thereon up to, but excluding, the redemption date.

*Dividend Reinvestment and Direct Stock Purchase Plan*

The Company sponsors a dividend reinvestment and direct stock purchase plan through which stockholders may purchase additional shares of the Company's common stock by reinvesting some or all of the cash dividends received on shares of the Company's common stock. Stockholders may also make optional cash purchases of shares of the Company's common stock subject to certain limitations detailed in the plan prospectus. The plan allows for the issuance of up to an aggregate of 3,750,000 shares of the Company's common stock. As of June 30, 2022, 420,184 shares have been issued under the plan for total proceeds of approximately \$5.9 million, of which 16,680 and 36,152 shares were issued for total proceeds of \$0.1 million and \$0.2 million during the three and six months ended June 30, 2022, respectively. During the three and six months ended June 30, 2021, 12,363 and 27,018 shares were issued for a total proceeds of \$0.1 million and \$0.2 million, respectively.

*Common Share Repurchase Program*

The Company's common share repurchase program allows for the repurchase of up to an aggregate of 37,500,000 shares of the Company's common stock. Common shares may be repurchased from time to time through privately negotiated transactions or open market transactions, pursuant to a trading plan in accordance with Rules 10b5-1 and 10b-18 under the Exchange Act, or by any combination of such methods. The manner, price, number and timing of common share repurchases are subject to a variety of factors, including market conditions and applicable SEC rules. The common share repurchase program does not require the purchase of any minimum number of shares, and, subject to SEC rules, purchases may be commenced or suspended at any time without prior notice. The common share repurchase program does not have an expiration date. As of June 30, 2022, a total of 12,174,300 common shares had been repurchased by the Company under the program for an aggregate cost of \$201.5 million. No common shares were repurchased during the three and six months ended June 30, 2022 or 2021.

*At-the-Market Offerings*

The Company is party to an amended and restated equity distribution agreement under which the Company is authorized to sell up to an aggregate of 35,000,000 shares of its common stock from time to time in any method permitted by law deemed to be an "at the market" offering as defined in Rule 415 under the Securities Act of 1933, as amended, or the Securities Act. As of June 30, 2022, 7,502,435 shares of common stock had been sold under the equity distribution agreements for total accumulated net proceeds of approximately \$128.7 million. No shares were sold during the three and six months ended June 30, 2022 or 2021.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)*****Accumulated Other Comprehensive (Loss) Income***

Accumulated other comprehensive (loss) income at June 30, 2022 and December 31, 2021 was as follows:

(in thousands)	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Available-for-sale securities:		
Unrealized gains	\$ 57,769	\$ 208,619
Unrealized losses	(207,479)	(22,273)
<b>Accumulated other comprehensive (loss) income</b>	<b>\$ (149,710)</b>	<b>\$ 186,346</b>

***Reclassifications out of Accumulated Other Comprehensive (Loss) Income***

The Company reclassifies unrealized gains and losses on AFS securities in accumulated other comprehensive (loss) income to net (loss) income upon the recognition of any realized gains and losses on sales, net of income tax effects, if any, as individual securities are sold. For the three and six months ended June 30, 2022 the Company reclassified \$137.6 million and \$129.3 million, respectively, in unrealized gains on sold AFS securities from accumulated other comprehensive (loss) income to (loss) gain on investment securities on the condensed consolidated statements of comprehensive loss. For the three and six months ended June 30, 2021 the Company reclassified \$5.1 million and \$73.7 million, respectively, in unrealized gains on sold AFS securities from accumulated other comprehensive (loss) income to (loss) gain on investment securities on the condensed consolidated statements of comprehensive loss.

**Note 17. Equity Incentive Plans**

On May 19, 2021, the Company's stockholders approved the 2021 Equity Incentive Plan, or the 2021 Plan, which replaced the Second Restated 2009 Equity Incentive Plan, or the 2009 Plan. The 2021 Plan provides for the issuance of up to 17,000,000 shares of the Company's common stock pursuant to awards granted thereunder. Awards previously granted under the 2009 Plan remain outstanding and valid in accordance with their terms, but no new awards will be granted under the 2009 Plan.

The Company's 2009 Plan and 2021 Plan, or collectively, the Equity Incentive Plans, provide incentive compensation to attract and retain qualified directors, officers, personnel and other parties who may provide significant services to the Company. The Equity Incentive Plans are administered by the compensation committee of the Company's board of directors. The compensation committee has the full authority to administer and interpret the Equity Incentive Plans, to authorize the granting of awards, to determine the eligibility of potential recipients to receive an award, to determine the number of shares of common stock to be covered by each award (subject to the individual participant limitations provided in the Equity Incentive Plans), to determine the terms, provisions and conditions of each award (which may not be inconsistent with the terms of the Equity Incentive Plans), to prescribe the form of instruments evidencing awards and to take any other actions and make all other determinations that it deems necessary or appropriate in connection with the Equity Incentive Plans or the administration or interpretation thereof. In connection with this authority, the compensation committee may, among other things, establish performance goals that must be met in order for awards to be granted or to vest, or for the restrictions on any such awards to lapse.

The Equity Incentive Plans provide for grants of restricted common stock, restricted stock units, or RSUs, performance-based awards (including performance share units, or PSUs), phantom shares, dividend equivalent rights and other equity-based awards. The 2021 Plan is subject to a ceiling of 17,000,000 shares and the 2009 Plan is subject to a ceiling of 6,500,000 shares of the Company's common stock; however, following stockholder approval of the 2021 Plan, no new awards will be granted under the 2009 Plan. The Equity Incentive Plans allow for the Company's board of directors to expand the types of awards available under the Equity Incentive Plans to include long-term incentive plan units in the future. If an award granted under the Equity Incentive Plans expires or terminates, the shares subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards. Unless earlier terminated by the Company's board of directors, no new award may be granted under the Equity Incentive Plans after the tenth anniversary of the date that the Equity Incentive Plans were approved by the Company's board of directors. No award may be granted under the Equity Incentive Plans to any person who, assuming payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company's common stock.

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**Restricted Stock Units**

The following table summarizes the activity related to RSUs for the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,			
	2022		2021	
	Units	Weighted Average Grant Date Fair Market Value	Units	Weighted Average Grant Date Fair Market Value
Outstanding at Beginning of Period	1,173,702	\$ 7.10	—	\$ —
Granted	1,075,437	5.25	1,336,717	7.10
Vested	(489,354)	(7.11)	—	—
Forfeited	(52,609)	(5.92)	—	—
Outstanding at End of Period	1,707,176	\$ 5.97	1,336,717	\$ 7.10

The estimated fair value of RSUs on grant date is based on the closing market price of the Company's common stock on the NYSE on such date. The shares underlying RSUs granted to independent directors are subject to a one-year vesting period. RSUs granted to certain eligible employees vest in three equal annual installments commencing on the first anniversary of the grant date, as long as such grantee complies with the terms and conditions of the applicable RSU agreement. All RSUs entitle the grantee to receive dividend equivalent rights, or DERs, during the vesting period. A DER represents the right to receive a payment equal to the amount of cash dividends declared and payable on the grantee's unvested and outstanding equity incentive awards. In the case of RSUs, DERs are paid in cash within 60 days of the quarterly dividend payment date based on the number of unvested and outstanding RSUs held by the grantee on the applicable dividend record date. In the event that an RSU is forfeited, the related DERs which have not yet been paid shall be forfeited.

**Performance Share Units**

The following table summarizes the activity related to PSUs for the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,			
	2022		2021	
	Target Units	Weighted Average Grant Date Fair Market Value	Target Units	Weighted Average Grant Date Fair Market Value
Outstanding at Beginning of Period	437,424	\$ 8.67	—	\$ —
Granted	605,251	5.45	511,473	8.67
Vested	—	—	—	—
Forfeited	(32,891)	(6.82)	(73,077)	(8.67)
Outstanding at End of Period	1,009,784	\$ 6.80	438,396	\$ 8.67

The estimated fair value of PSUs on grant date is determined using a Monte Carlo simulation. PSUs vest promptly following the completion of a three year performance period, as long as such grantee complies with the terms and conditions of the applicable PSU award agreement. The number of underlying shares of common stock that vest and that the grantee becomes entitled to receive at the time of vesting will be determined based on the level of achievement of certain Company performance goals during the performance period and will generally range from 0% to 200% of the target number of PSUs granted. All PSUs entitle the grantee to DERs during the vesting period, which accrue in the form of additional PSUs reflecting the value of any dividends declared on the Company's common stock during the vesting period. In the event that a PSU is forfeited, the related accrued DERs shall be forfeited.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)****Restricted Common Stock**

The following table summarizes the activity related to restricted common stock for the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,			
	2022		2021	
	Shares	Weighted Average Grant Date Fair Market Value	Shares	Weighted Average Grant Date Fair Market Value
Outstanding at Beginning of Period	452,957	\$ 15.04	1,221,995	\$ 13.61
Granted	—	—	20,979	7.15
Vested	(276,765)	(14.93)	(681,514)	(12.70)
Forfeited	(3,721)	(15.23)	(33,568)	(5.07)
Outstanding at End of Period	<u>172,471</u>	<u>\$ 15.23</u>	<u>527,892</u>	<u>\$ 15.06</u>

The estimated fair value of restricted common stock on grant date is based on the closing market price of the Company's common stock on the NYSE on such date. The shares underlying restricted common stock grants to independent directors in 2021 vested immediately. The shares underlying restricted common stock grants to independent directors prior to 2021 were subject to a one-year vesting period. The shares underlying restricted common stock grants to the Company's executive officers and other eligible individuals vest in three equal annual installments commencing on the first anniversary of the grant date, as long as such grantee complies with the terms and conditions of the applicable restricted stock award agreement.

**Non-Cash Equity Compensation Expense**

For the three and six months ended June 30, 2022, the Company recognized compensation related to RSUs, PSUs and restricted common stock granted pursuant to the Equity Incentive Plans of \$3.5 million and \$7.6 million, respectively. For the three and six months ended June 30, 2021, the Company recognized compensation related to restricted common stock granted pursuant to the Equity Incentive Plans of \$4.6 million and \$6.4 million, respectively. As of June 30, 2022, the Company had \$6.7 million of total unrecognized compensation cost related to unvested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.2 years.

**Note 18. Income Taxes**

For the three and six months ended June 30, 2022 and 2021, the Company qualified to be taxed as a REIT under the Code for U.S. federal income tax purposes. As long as the Company qualifies as a REIT, the Company generally will not be subject to U.S. federal income taxes on its taxable income to the extent it annually distributes its net taxable income to stockholders, and does not engage in prohibited transactions. The Company intends to distribute 100% of its REIT taxable income and comply with all requirements to continue to qualify as a REIT. The majority of states also recognize the Company's REIT status. The Company's TRSs file separate tax returns and are fully taxed as standalone U.S. C corporations. It is assumed that the Company will retain its REIT status and will incur no REIT level taxation as it intends to comply with the REIT regulations and annual distribution requirements.

During the three and six months ended June 30, 2022, the Company's TRSs recognized a provision for income taxes of \$25.9 million and \$74.7 million, respectively, which was primarily due to income from MSR servicing activities and gains recognized on MSR, offset by net losses recognized on derivative instruments and operating expenses. During the three months ended June 30, 2021, the Company's TRSs recognized a benefit from income taxes of \$20.9 million, which was primarily due to losses recognized on MSR, offset by net gains recognized on derivative instruments held in the Company's TRSs. During the six months ended June 30, 2021, the Company's TRSs recognized a provision for income taxes of \$1.8 million, which was primarily due to gains recognized on MSR, offset by net losses recognized on derivative instruments held in the Company's TRSs.

Based on the Company's evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company's condensed consolidated financial statements of a contingent tax liability for uncertain tax positions. Additionally, there were no amounts accrued for penalties or interest as of or during the periods presented in these condensed consolidated financial statements.

**TWO HARBORS INVESTMENT CORP.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**Note 19. Earnings Per Share**

The following table presents a reconciliation of the (loss) earnings and shares used in calculating basic and diluted (loss) earnings per share for the three and six months ended June 30, 2022 and 2021:

(in thousands, except share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Basic (Loss) Earnings Per Share:</b>				
Net (loss) income				
Dividends on preferred stock	\$ (72,420)	\$ (117,960)	\$ 212,850	\$ 122,197
Dividends and undistributed earnings allocated to participating restricted stock units	13,748	13,747	27,495	30,963
Net (loss) income attributable to common stockholders, basic	<u>290</u>	<u>227</u>	<u>910</u>	<u>331</u>
Basic weighted average common shares	<u>\$ (86,458)</u>	<u>\$ (131,934)</u>	<u>\$ 184,445</u>	<u>\$ 90,903</u>
<b>Basic (loss) earnings per weighted average common share</b>	<u>\$ (0.25)</u>	<u>\$ (0.48)</u>	<u>\$ 0.54</u>	<u>\$ 0.33</u>
<b>Diluted (Loss) Earnings Per Share:</b>				
Net (loss) income attributable to common stockholders, basic				
Reallocation impact of undistributed earnings to participating restricted stock units	\$ (86,458)	\$ (131,934)	\$ 184,445	\$ 90,903
Interest expense attributable to convertible notes <sup>(1)</sup>	—	—	(8)	(11)
Net (loss) income attributable to common stockholders, diluted	<u>\$ (86,458)</u>	<u>\$ (131,934)</u>	<u>\$ 194,280</u>	<u>\$ 98,800</u>
Basic weighted average common shares	<u>344,277,723</u>	<u>273,718,561</u>	<u>344,138,889</u>	<u>273,714,684</u>
Effect of dilutive shares issued in an assumed vesting of performance share units	—	—	543,480	—
Effect of dilutive shares issued in an assumed conversion	—	—	39,659,522	32,284,519
Diluted weighted average common shares	<u>344,277,723</u>	<u>273,718,561</u>	<u>384,341,891</u>	<u>305,999,203</u>
<b>Diluted (loss) earnings per weighted average common share</b>	<u>\$ (0.25)</u>	<u>\$ (0.48)</u>	<u>\$ 0.51</u>	<u>\$ 0.32</u>

(1) If applicable, includes a nondiscretionary adjustment for the assumed change in the management fee calculation.

For the three months ended June 30, 2022 and 2021, excluded from the calculation of diluted earnings per share was the effect of adding undistributed earnings reallocated to 1,775,985 and 954,763 weighted average participating RSUs, respectively, as their inclusion would have been antidilutive. For the six months ended June 30, 2022 and 2021, participating RSUs were included in the calculations of basic and diluted earnings per share under the two-class method, as it was more dilutive than the alternative treasury stock method.

For the three months ended June 30, 2022 and the three and six months ended June 30, 2021, PSUs were excluded from the calculation of diluted earnings per share, as their inclusion would have been antidilutive. For the six months ended June 30, 2022, the assumed vesting of outstanding PSUs was included in the calculation of diluted earnings per share under the two-class method, as it was more dilutive than the alternative treasury stock method.

**TWO HARBORS INVESTMENT CORP.****Notes to the Condensed Consolidated Financial Statements (unaudited)**

For the three months ended June 30, 2022, excluded from the calculation of diluted earnings per share was the effect of adding back \$4.8 million of interest expense and 38,956,653 weighted average common share equivalents related to the assumed conversion of the Company's convertible senior notes, as their inclusion would have been antidilutive. For the six months ended June 30, 2022, the assumed conversion of the Company's convertible senior notes was included in the calculation of diluted earnings per share under the if-converted method.

For the three and six months ended June 30, 2021, excluded from the calculation of diluted earnings per share was the effect of adding back \$7.1 million and \$5.6 million of interest expense and 48,043,744 and 13,789,691 weighted average common share equivalents, respectively, related to the assumed conversion of the Company's convertible senior notes, as their inclusion would have been antidilutive. For the three months ended June 30, 2021, both the 2022 notes and the 2026 notes were excluded from the calculation of diluted earnings per share. For the six months ended June 30, 2021, only the 2022 notes were excluded from the calculation of diluted earnings per share, and the assumed conversion of the Company's 2026 notes was included in the calculation of diluted earnings per share under the if-converted method.

**Note 20. Subsequent Events**

On August 2, 2022, Matrix Financial Services Corporation, or Matrix, a wholly owned subsidiary of the Company, entered into a definitive stock purchase agreement to acquire RoundPoint Mortgage Servicing Corporation, or RoundPoint, from Freedom Mortgage Corporation. In connection with the acquisition, Matrix has agreed to pay a purchase price upon closing in an amount equal to the tangible net book value of RoundPoint, plus a premium amount of \$10.5 million, subject to certain additional post-closing adjustments.

In connection with the transaction, RoundPoint will divest its retail origination business as well as its RPX servicing exchange platform. Matrix has also agreed to engage RoundPoint as a subservicer prior to the closing date and expects to begin transferring loans to RoundPoint in the fourth quarter of 2022. Upon closing, all servicing licenses and operational capabilities will remain with RoundPoint, and RoundPoint will become a wholly owned subsidiary of Matrix. The parties expect to close the transaction in 2023, subject to the satisfaction of customary closing conditions and the receipt of required regulatory and GSE approvals.

Events subsequent to June 30, 2022 were evaluated through the date these condensed consolidated financial statements were issued and no other additional events were identified requiring further disclosure in these condensed consolidated financial statements.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q as well as our Annual Report on Form 10-K for the year ended December 31, 2021.

**General**

We are a Maryland corporation focused on investing in and managing Agency residential mortgage-backed securities, or Agency RMBS, mortgage servicing rights, or MSR, and other financial assets, which we collectively refer to as our target assets. We operate as a real estate investment trust, or REIT, as defined under the Internal Revenue Code of 1986, as amended, or the Code.

Our objective is to provide attractive risk-adjusted total return to our stockholders over the long term, primarily through dividends and secondarily through capital appreciation. We acquire and manage an investment portfolio of our target assets, which include the following:

- Agency RMBS (which includes inverse interest-only Agency securities classified as “Agency Derivatives” for purposes of U.S. generally accepted accounting principles, or U.S. GAAP), meaning RMBS whose principal and interest payments are guaranteed by a U.S. government agency, such as the Government National Mortgage Association (or Ginnie Mae), or a U.S. government sponsored enterprise, or GSE, such as the Federal National Mortgage Association (or Fannie Mae) or the Federal Home Loan Mortgage Corporation (or Freddie Mac);
- MSR; and
- Other financial assets comprising approximately 5% to 10% of the portfolio.

Our Agency RMBS portfolio is comprised primarily of fixed rate mortgage-backed securities backed by single-family and multi-family mortgage loans. All of our principal and interest Agency RMBS are Fannie Mae or Freddie Mac mortgage pass-through certificates or collateralized mortgage obligations that carry an implied rating of “AAA,” or Ginnie Mae mortgage pass-through certificates, which are backed by the guarantee of the U.S. government. The majority of these securities consist of whole pools in which we own all of the investment interests in the securities.

Within our MSR business, we acquire MSR assets, which represent the right to control the servicing of residential mortgage loans and the obligation to service the loans in accordance with relevant standards, from high-quality originators. We do not directly service the mortgage loans underlying the MSR we acquire; rather, we contract with appropriately licensed third-party subservicers to handle substantially all servicing functions in the name of the subservicer. As the servicer of record, however, we remain accountable to the GSEs for all servicing matters and, accordingly, provide substantial oversight of each of our subservicers. We believe MSR are a natural fit for our portfolio over the long term. Our MSR business leverages our core competencies in prepayment and credit risk analytics and the MSR assets provide offsetting risks to our Agency RMBS, hedging both interest rate and mortgage spread risk.

For the three months ended June 30, 2022, our net spread realized on the portfolio was higher than recent quarters due to higher MSR servicing income, net of estimated amortization, as well as higher coupon and lower amortization on Agency RMBS due to slower prepayment speeds, offset by higher cost of financing due to rising interest rates and an increase in interest rate swap spread expense. The following table provides the average portfolio yield and cost of financing on our assets for the three months ended June 30, 2022, and the four immediately preceding quarters:

	Three Months Ended				
	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Average portfolio yield <sup>(1)</sup>	4.39%	3.90%	3.72%	3.33%	2.72%
Average cost of financing <sup>(2)</sup>	1.13%	1.01%	0.73%	0.78%	0.79%
Net spread	3.26%	2.89%	2.99%	2.55%	1.93%

- (1) Average portfolio yield includes interest income on Agency RMBS and non-Agency securities and MSR servicing income, net of estimated amortization, and servicing expenses. Beginning with the three months ended June 30, 2022, average portfolio yield also includes the implied asset yield portion of dollar roll income on TBAs. MSR estimated amortization refers to the portion of change in fair value of MSR primarily attributed to the realization of expected cash flows (runoff) of the portfolio, which is deemed a non-GAAP measure due to the company’s decision to account for MSR at fair value. TBA dollar roll income is the non-GAAP economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements.
- (2) Average cost of financing includes interest expense and amortization of deferred debt issuance costs on borrowings and interest spread income/expense and amortization of upfront payments made or received upon entering into interest rate swap agreements. Beginning with the three months ended June 30, 2022, average cost of financing also includes the implied financing benefit/cost portion of dollar roll income on TBAs. TBA dollar roll income is the non-GAAP economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements.

We seek to deploy moderate leverage as part of our investment strategy. We generally finance our Agency RMBS securities through short- and long-term borrowings structured as repurchase agreements. We also finance our MSR through revolving credit facilities, repurchase agreements, term notes payable and convertible senior notes.

Our Agency RMBS, given their liquidity and high credit quality, are eligible for higher levels of leverage, while MSR, with less liquidity and/or more exposure to prepayment, utilize lower levels of leverage. As a result, our debt-to-equity ratio is determined by our portfolio mix as well as many additional factors, including the liquidity of our portfolio, the availability and price of our financing, the diversification of our counterparties and their available capacity to finance our assets, and anticipated regulatory developments. Our debt-to-equity ratio is also directly correlated to the composition of our portfolio; specifically, the higher percentage of Agency RMBS we hold, the higher our debt-to-equity ratio is. We may alter the percentage allocation of our portfolio among our target assets depending on the relative value of the assets that are available to purchase from time to time, including at times when we are deploying proceeds from offerings we conduct. See Item 2, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Financing*” for further discussion.

We recognize that investing in our target assets is competitive and we compete with other entities for attractive investment opportunities. We believe that our significant focus in the residential market, the extensive mortgage market expertise of our investment team, our operational capabilities to invest in MSR, our strong analytics and our disciplined relative value investment approach give us a competitive advantage versus our peers.

We have elected to be treated as a REIT for U.S. federal income tax purposes. To qualify as a REIT we are required to meet certain investment and operating tests and annual distribution requirements. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our net taxable income to stockholders, do not participate in prohibited transactions and maintain our intended qualification as a REIT. However, certain activities that we may perform may cause us to earn income which will not be qualifying income for REIT purposes. We have designated certain of our subsidiaries as taxable REIT subsidiaries, or TRSs, as defined in the Code, to engage in such activities. We also operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the 1940 Act. While we do not currently originate or directly service residential mortgage loans, certain of our subsidiaries have obtained the requisite licenses and approvals to own and manage MSR.

#### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains, or incorporates by reference, not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, and that are subject to the safe harbors created by such sections. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as “anticipate,” “estimate,” “will,” “should,” “expect,” “target,” “believe,” “intend,” “seek,” “plan,” “goals,” “future,” “likely,” “may” and similar expressions or their negative forms, or by references to strategy, plans, or intentions. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in our Annual Report on Form 10-K for the year ended December 31, 2021, under the caption “Risk Factors.” Other risks, uncertainties and factors that could cause actual results to differ materially from those projected are described below and may be described from time to time in reports we file with the Securities and Exchange Commission, or SEC, including our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update or revise any such forward-looking statements, whether as a result of new information, future events, or otherwise.

Important factors, among others, that may affect our actual results include:

- changes in interest rates and the market value of our target assets;
- changes in prepayment rates of mortgages underlying our target assets;
- the state of the credit markets and other general economic conditions, particularly as they affect the price of earning assets, the credit status of borrowers and home prices;
- the ongoing impact of the COVID-19 pandemic, and the actions taken by federal and state governmental authorities and GSEs in response, on the U.S. economy, financial markets and our target assets;
- legislative and regulatory actions affecting our business;
- the availability and cost of our target assets;
- the availability and cost of financing for our target assets, including repurchase agreement financing, revolving credit facilities, term notes and convertible notes;

- the impact of any increases in payment delinquencies and defaults on the mortgages comprising and underlying our target assets, including additional servicing costs and servicing advance obligations on the MSR assets we own;
- changes in liquidity in the market for real estate securities, the re-pricing of credit risk in the capital markets, inaccurate ratings of securities by rating agencies, rating agency downgrades of securities, and increases in the supply of real estate securities available-for-sale;
- changes in the values of securities we own and the impact of adjustments reflecting those changes on our condensed consolidated statements of comprehensive income (loss) and balance sheets, including our stockholders' equity;
- our ability to generate cash flow from our target assets;
- our ability to effectively execute and realize the benefits of strategic transactions and initiatives we have pursued or may in the future pursue;
- our decision to terminate our Management Agreement with PRCM Advisers LLC and the ongoing litigation related to such termination;
- changes in the competitive landscape within our industry, including changes that may affect our ability to attract and retain personnel;
- our exposure to legal and regulatory claims, penalties or enforcement activities, including those arising from our ownership and management of MSR and prior securitization transactions;
- our exposure to counterparties involved in our MSR business and prior securitization transactions and our ability to enforce representations and warranties made by them;
- our ability to acquire MSR and successfully operate our seller-servicer subsidiary and oversee the activities of our subservicers;
- our ability to manage various operational and regulatory risks associated with our business;
- interruptions in or impairments to our communications and information technology systems;
- our ability to maintain appropriate internal controls over financial reporting;
- our ability to establish, adjust and maintain appropriate hedges for the risks in our portfolio;
- our ability to maintain our REIT qualification for U.S. federal income tax purposes; and
- limitations imposed on our business due to our REIT status and our status as exempt from registration under the 1940 Act.

This Quarterly Report on Form 10-Q may contain statistics and other data that, in some cases, have been obtained or compiled from information made available by mortgage loan servicers and other third-party service providers.

#### **Factors Affecting our Operating Results**

Our net interest income includes income from our securities portfolio, including the amortization of purchase premiums and accretion of purchase discounts. Net interest income, as well as our servicing income, net of subservicing expenses, will fluctuate primarily as a result of changes in market interest rates, our financing costs and prepayment speeds on our assets. Interest rates, financing costs and prepayment rates vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty.

#### **Fair Value Measurement**

A significant portion of our assets and liabilities are reported at fair value and, therefore, our condensed consolidated balance sheets and statements of comprehensive loss are significantly affected by fluctuations in market prices. At June 30, 2022, approximately 87.7% of our total assets, or \$12.0 billion, consisted of financial instruments recorded at fair value. See Note 10 - *Fair Value* to the condensed consolidated financial statements, included in this Quarterly Report on Form 10-Q, for descriptions of valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models and significant assumptions utilized. Although we execute various hedging strategies to mitigate our exposure to changes in fair value, we cannot fully eliminate our exposure to volatility caused by fluctuations in market prices.

Any temporary change in the fair value of our AFS securities, excluding certain AFS securities for which we have elected the fair value option, is recorded as a component of accumulated other comprehensive (loss) income and does not impact our reported income (loss) for U.S. GAAP purposes, or GAAP net income (loss). However, changes in the provision for credit losses on AFS securities are recognized immediately in GAAP net income (loss). Our GAAP net income (loss) is also affected by fluctuations in market prices on the remainder of our financial assets and liabilities recorded at fair value, including interest rate swap, cap and swaption agreements and certain other derivative instruments (*i.e.*, Agency to-be-announced securities, or TBAs, options on TBAs, futures, options on futures, and inverse interest-only securities), which are accounted for as derivative trading instruments under U.S. GAAP, fair value option elected AFS securities and MSR.

We have numerous internal controls in place to help ensure the appropriateness of fair value measurements. Significant fair value measures are subject to detailed analytics and management review and approval. Our entire investment portfolio reported at fair value is priced by third-party brokers and/or by independent pricing vendors. We generally receive three or more broker and vendor quotes on pass-through Agency P&I RMBS, and generally receive multiple broker or vendor quotes on all other securities, including interest-only Agency RMBS and inverse interest-only Agency RMBS. We also receive multiple vendor quotes for the MSR in our investment portfolio. For Agency RMBS, the third-party pricing vendors and brokers use pricing models that commonly incorporate such factors as coupons, primary and secondary mortgage rates, rate reset periods, issuer, prepayment speeds, credit enhancements and expected life of the security. For MSR, vendors use pricing models that generally incorporate observable inputs such as principal balance, note rate, geographical location, loan-to-value (LTV) ratios, FICO, appraised value and other loan characteristics, along with observed market yields and trading levels. Pricing vendors will customarily incorporate loan servicing cost, servicing fee, ancillary income, and earnings rate on escrow as observable inputs. Unobservable or model-driven inputs include forecast cumulative defaults, default curve, forecast loss severity and forecast voluntary prepayment.

We evaluate the prices we receive from both third-party brokers and pricing vendors by comparing those prices to actual purchase and sale transactions, our internally modeled prices calculated based on market observable rates and credit spreads, and to each other both in current and prior periods. We review and may challenge valuations from third-party brokers and pricing vendors to ensure that such quotes and valuations are indicative of fair value as a result of this analysis. We then estimate the fair value of each security based upon the median of the final broker quotes received, and we estimate the fair value of MSR based upon the average of prices received from third-party vendors, subject to internally-established hierarchy and override procedures.

We utilize “bid side” pricing for our Agency RMBS and, as a result, certain assets, especially the most recent purchases, may realize a markdown due to the “bid-offer” spread. To the extent that this occurs, any economic effect of this would be reflected in accumulated other comprehensive (loss) income.

Considerable judgment is used in forming conclusions and estimating inputs to our Level 3 fair value measurements. Level 3 inputs such as interest rate movements, prepayments speeds, credit losses and discount rates are inherently difficult to estimate. Changes to these inputs can have a significant effect on fair value measurements. Accordingly, there is no assurance that our estimates of fair value are indicative of the amounts that would be realized on the ultimate sale or exchange of these assets. At June 30, 2022, 24.1% of our total assets were classified as Level 3 fair value assets.

#### **Critical Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires us to make certain judgments and assumptions, based on information available at the time of our preparation of the financial statements, in determining accounting estimates used in preparation of the statements. Accounting estimates are considered critical if the estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made and if different estimates reasonably could have been used in the reporting period or changes in the accounting estimate are reasonably likely to occur from period to period that would have a material impact on our financial condition, results of operations or cash flows. Our significant accounting policies are described in Note 2 to the consolidated financial statements, included under Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2021. Our most critical accounting policies involve our fair valuation of AFS securities, MSR and derivative instruments.

The methods used by us to estimate fair value for AFS securities, MSR and derivative instruments may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe that our valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. We use prices obtained from third-party pricing vendors or broker quotes deemed indicative of market activity and current as of the measurement date, which in periods of market dislocation, may have reduced transparency. For more information on our fair value measurements, see Note 10 to the condensed consolidated financial statements, included under Item 1 of this Quarterly Report on Form 10-Q. Additionally, the key economic assumptions and sensitivity of the fair value of MSR to immediate adverse changes in these assumptions are presented in Note 5 to the condensed consolidated financial statements, included under Item 1 of this Quarterly Report on Form 10-Q.

## Market Conditions and Outlook

The market continued to experience high interest rate and spread volatility during the second quarter as the combined effects of increasing inflation and a slowing economy created uncertainty. With headline inflation reaching 9.1% in June, the U.S. Federal Reserve, or the Fed, moved aggressively to tighten monetary policy. In total, the Fed raised its benchmark rate by 125 basis points during the second quarter, including a 75 basis point increase in June, the largest single meeting increase since 1994. The Fed has communicated that it is strongly committed to continue to do whatever it takes to tame inflation, and the rate market is pricing in another 200 basis points of increases by the end of the year, which would bring the implied U.S. Federal Funds Rate close to 3.5%. Concurrently, U.S. economic growth forecasts have been deteriorating, with some economists now projecting negative GDP in the second quarter. The uncertainty in the path of inflation, growth and monetary policy has contributed to the extreme bond market volatility during 2022.

Mortgage spreads continued to widen during the second quarter along with other risk assets amid the uncertain backdrop. Mortgage spreads were over 20 basis points wider, while the S&P 500 was down over 16% as markets have priced in lower growth and a higher risk of recession. Primary mortgage interest rates breached 6%, the highest levels since 2008. With the majority of outstanding mortgages having interest rates below 3.5%, cash out and turnover activity is expected to be greatly reduced due to the large rate disincentive, bringing prepayment speeds close to their turnover floor.

RMBS funding markets were stable and efficient despite the Fed interest rate increases and uncertainty of the forward path. Spreads on repurchase agreement financing remained attractive at 10 to 12 basis points to SOFR. The heavy use of the Fed's reverse repurchase agreement facility continued with increased balances hitting another new high at the end of the second quarter of \$2.3 billion.

Despite the uncertainty and large re-pricing seen during the second quarter, we believe the longer term outlook for the company is positive. The current environment of wide mortgage spreads presents attractive investment opportunities across a variety of asset classes, while higher volatility allows us to take advantage of relative value opportunities. We expect volatility to eventually subside, which should benefit both MSR and RMBS. Higher mortgage rates should lead inexorably to slow prepayments, which would continue to be a tailwind for our MSR assets. Overall, we are optimistic about the forward outlook for the company and our paired Agency RMBS and MSR portfolio construction.

The following table provides the carrying value of our investment portfolio by product type:

(dollars in thousands)	June 30, 2022		December 31, 2021	
Agency RMBS	\$ 8,701,947	72.3 %	\$ 7,149,399	76.1 %
Mortgage servicing rights	3,226,191	26.8 %	2,191,578	23.3 %
Agency Derivatives	24,068	0.2 %	40,911	0.5 %
Non-Agency securities	87,490	0.7 %	12,304	0.1 %
Total	<u>\$ 12,039,696</u>		<u>\$ 9,394,192</u>	

### Prepayment speeds and volatility due to interest rates

Our portfolio is subject to market risks, primarily interest rate risk and prepayment risk. We seek to offset a portion of our Agency pool market value exposure through our MSR and interest-only Agency RMBS portfolios. During periods of decreasing interest rates with rising prepayment speeds, the market value of our Agency pools generally increases and the market value of our interest-only securities and MSR generally decreases. The inverse relationship occurs when interest rates rise and prepayments fall. Interest rates moved even higher during the second quarter, with most mortgages now having a large refinancing disincentive. Looking forward, prepayment speeds are expected to slow further, as even cash out refinance activity should be affected by the continued move in rates. In addition to changes in interest rates, changes in home price performance, key employment metrics and government programs, among other macroeconomic factors, can affect prepayment speeds. We believe our portfolio management approach, including our asset selection process, positions us to respond to a variety of market scenarios. Although we are unable to predict future interest rate movements, our strategy of pairing Agency RMBS with MSR, with a focus on managing various associated risks, including interest rate, prepayment, credit, mortgage spread and financing risk, is intended to generate attractive yields with a low level of sensitivity to changes in the yield curve, prepayments and interest rate cycles.

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The following table provides the three-month average constant prepayment rate, or CPR, experienced by our Agency RMBS and MSR during the three months ended June 30, 2022, and the four immediately preceding quarters:

	Three Months Ended				
	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Agency RMBS	14.2 %	17.3 %	27.7 %	30.1 %	32.3 %
Mortgage servicing rights	10.0 %	14.2 %	22.1 %	26.7 %	29.0 %

Our Agency RMBS are primarily collateralized by pools of fixed-rate mortgage loans. Our Agency portfolio also includes securities with implicit prepayment protection, including lower loan balances (securities collateralized by loans of less than \$200,000 in initial principal balance), higher LTVs (securities collateralized by loans with LTVs greater than or equal to 80%), certain geographic concentrations, loans secured by investor-owned properties and lower FICO scores. Our overall allocation of Agency RMBS and holdings of pools with specific characteristics are viewed in the context of our aggregate portfolio strategy, including MSR and related derivative hedging instruments. Additionally, the selection of securities with certain attributes is driven by the perceived relative value of the securities, which factors in the opportunities in the marketplace, the cost of financing and the cost of hedging interest rate, prepayment, credit and other portfolio risks. As a result, Agency RMBS capital allocation reflects management's flexible approach to investing in the marketplace.

The following tables provide the carrying value of our Agency RMBS portfolio by underlying mortgage loan rate type:

(dollars in thousands)	June 30, 2022							
	Principal/ Current Face	Carrying Value	Weighted Average CPR <sup>(1)</sup>	% Prepayment Protected	Gross Weighted Average Coupon Rate	Amortized Cost	Allowance for Credit Losses	Weighted Average Loan Age (months)
Agency RMBS AFS:								
30-Year Fixed								
≤ 2.5%	\$ 512,388	\$ 463,741	9.9 %	84.2 %	3.4 %	\$ 460,271	\$ —	16
3.0%	—	—	— %	— %	— %	—	—	—
3.5%	1,194,159	1,156,727	6.4 %	100.0 %	4.1 %	1,232,720	—	10
4.0%	3,489,917	3,477,167	9.3 %	100.0 %	4.6 %	3,553,206	—	21
4.5%	2,729,780	2,782,256	10.7 %	100.0 %	5.1 %	2,812,136	—	23
≥ 5.0%	629,704	654,860	13.4 %	99.1 %	5.9 %	653,683	—	40
	8,555,948	8,534,751	9.7 %	99.1 %	4.7 %	8,712,016	—	22
Other P&I	47,060	49,742	12.8 %	— %	6.5 %	51,956	—	232
Interest-only	1,665,968	117,454	13.6 %	— %	3.8 %	116,302	(9,403)	71
Agency Derivatives	217,851	24,068	14.1 %	— %	6.7 %	27,360	—	212
Total Agency RMBS	<u>\$ 10,486,827</u>	<u>\$ 8,726,015</u>		<u>96.9 %</u>		<u>\$ 8,907,634</u>	<u>\$ (9,403)</u>	

(dollars in thousands)	December 31, 2021								
	Principal/ Current Face	Carrying Value	Weighted Average CPR <sup>(1)</sup>	% Prepayment Protected	Gross Weighted Average Coupon Rate	Amortized Cost	Allowance for Credit Losses	Weighted Average Loan Age (months)	
Agency RMBS AFS: 30-Year Fixed									
≤ 2.5%	\$ 1,243,928	\$ 1,271,382	5.9 %	— %	3.3 %	\$ 1,272,323	\$ —	3	
3.0%	1,316,662	1,384,176	9.6 %	100.0 %	3.7 %	1,381,936	—	8	
3.5%	739,922	789,499	27.3 %	100.0 %	4.2 %	769,989	—	29	
4.0%	1,421,793	1,543,595	26.5 %	100.0 %	4.6 %	1,478,444	—	49	
4.5%	1,307,504	1,435,877	27.7 %	100.0 %	5.0 %	1,373,076	—	47	
≥ 5.0%	325,485	361,746	37.6 %	98.0 %	5.9 %	344,543	—	84	
	6,355,294	6,786,275	20.5 %	81.2 %	4.3 %	6,620,311	—	31	
Other P&I	56,069	62,228	53.9 %	— %	6.5 %	61,739	—	224	
Interest-only	3,198,447	300,896	20.2 %	— %	3.6 %	305,577	(12,851)	47	
Agency Derivatives	247,101	40,911	18.6 %	— %	6.7 %	33,237	—	206	
Total Agency RMBS	<u>\$ 9,856,911</u>	<u>\$ 7,190,310</u>		<u>76.6 %</u>		<u>\$ 7,020,864</u>	<u>\$ (12,851)</u>		

(1) Weighted average actual one-month CPR released at the beginning of the following month based on RMBS held as of the preceding month-end.

Our MSR business offers attractive spreads and has many risk reducing characteristics when paired with our Agency RMBS portfolio. The following table summarizes activity related to the unpaid principal balance, or UPB, of loans underlying our MSR portfolio for the three months ended June 30, 2022, and the four immediately preceding quarters:

(in thousands)	Three Months Ended				
	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
UPB at beginning of period	\$ 229,415,913	\$ 193,770,566	\$ 194,393,942	\$ 185,209,738	\$ 179,014,244
Purchases of mortgage servicing rights	5,720,323	45,136,996	13,562,240	29,347,318	22,983,402
Sales of mortgage servicing rights	—	—	9,065	(3,633,709)	—
Scheduled payments	(1,697,237)	(1,572,871)	(1,441,835)	(1,407,996)	(1,283,474)
Prepaid	(6,026,461)	(8,249,432)	(11,966,741)	(14,564,141)	(15,119,403)
Other changes	(338,125)	330,654	(786,105)	(557,268)	(385,031)
UPB at end of period	<u>\$ 227,074,413</u>	<u>\$ 229,415,913</u>	<u>\$ 193,770,566</u>	<u>\$ 194,393,942</u>	<u>\$ 185,209,738</u>

#### **Counterparty exposure and leverage ratio**

We monitor counterparty exposure in our broker, banking and lending counterparties on a daily basis. We believe our broker and banking counterparties are well-capitalized organizations, and we attempt to manage our cash balances across these organizations to reduce our exposure to any single counterparty.

As of June 30, 2022, we had entered into repurchase agreements with 39 counterparties, 21 of which had outstanding balances at June 30, 2022. In addition, we held short- and long-term borrowings under revolving credit facilities, long-term term notes payable and long-term unsecured convertible senior notes. As of June 30, 2022, the debt-to-equity ratio funding our AFS securities, MSR and Agency Derivatives, which includes unsecured borrowings under convertible senior notes, was 3.8:1.0.

As of June 30, 2022, we held \$511.9 million in cash and cash equivalents, approximately \$1.4 billion of unpledged AFS securities and Agency derivatives, which includes \$1.3 billion of unsettled Agency RMBS purchases, and \$7.6 million of unpledged non-Agency securities. As a result, we had an overall estimated unused borrowing capacity on our unpledged securities of approximately \$26.4 million. As of June 30, 2022, we held approximately \$46.9 million of unpledged MSR and \$64.7 million of unpledged servicing advances. Overall, we had unused committed borrowing capacity on MSR asset and servicing advance financing facilities of \$218.8 million and \$170.8 million, respectively. Generally, unused borrowing capacity may be the result of our election not to utilize certain financing, as well as delays in the timing in which funding is provided, insufficient collateral or the inability to meet lenders' eligibility requirements for specific types of asset classes.

We also monitor exposure to our MSR counterparties. We may be required to make representations and warranties to investors in the loans underlying the MSR we own; however, some of our MSR were purchased on a bifurcated basis, meaning the representation and warranty obligations remain with the seller. If the representations and warranties we make prove to be inaccurate, we may be obligated to repurchase certain mortgage loans, which may impact the profitability of our portfolio. Although we obtain similar representations and warranties from the counterparty from which we acquired the relevant asset, if those representations and warranties do not directly mirror those we make to the investor, or if we are unable to enforce the representations and warranties against the counterparty for a variety of reasons, including the financial condition or insolvency of the counterparty, we may not be able to seek indemnification from our counterparties for any losses attributable to the breach.

#### **LIBOR transition**

The London Interbank Offered Rate, or LIBOR, has been used extensively in the U.S. and globally as a "benchmark" or "reference rate" for various commercial and financial contracts, including corporate and municipal bonds and loans, floating rate mortgages, asset-backed securities, consumer loans, and interest rate swaps and other derivatives. On March 5, 2021, Intercontinental Exchange Inc. announced that ICE Benchmark Administration Limited, the administrator of LIBOR, intends to stop publication of the majority of USD-LIBOR tenors on June 30, 2023. In the U.S., the Alternative Reference Rates Committee, or ARRC, has identified the Secured Overnight Financing Rate, or SOFR, as its preferred alternative rate for U.S. dollar-based LIBOR. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions. Numerous industry wide and company-specific transitions as it relates to derivatives and cash markets exposed to LIBOR are in process, if not complete. We have material contracts that are indexed to USD-LIBOR and are monitoring this activity, evaluating the related risks and our exposure, and have already amended terms to transition to an alternative benchmark, where necessary. All of our financing arrangements and derivative instruments that incorporate LIBOR as the referenced rate either mature prior to the phase out of LIBOR or have provisions in place that provide for an alternative to LIBOR upon its phase-out. Additionally, each series of our fixed-to-floating preferred stock that becomes redeemable at the time the stock begins to pay a LIBOR-based rate has existing LIBOR cessation fallback language.

#### **Summary of Results of Operations and Financial Condition**

Our GAAP net loss attributable to common stockholders was \$86.2 million and GAAP net income attributable to common stockholders was \$185.4 million (\$0.25) and \$0.51 per diluted weighted average share) for the three and six months ended June 30, 2022, respectively, as compared to GAAP net loss attributable to common stockholders of \$131.7 million and GAAP net income attributable to common stockholders of \$91.2 million (\$0.48) and \$0.32 per diluted weighted average share) for the three and six months ended June 30, 2021, respectively.

With our accounting treatment for AFS securities, unrealized fluctuations in the market values of AFS securities, excluding certain AFS securities for which we have elected the fair value option and securities with an allowance for credit losses, do not impact our GAAP net (loss) income or taxable income but are recognized on our condensed consolidated balance sheets as a change in stockholders' equity under "accumulated other comprehensive (loss) income." For the three and six months ended June 30, 2022, net unrealized losses on AFS securities recognized as other comprehensive loss, net of tax, were \$4.2 million and \$336.1 million, respectively. This, combined with GAAP net loss attributable to common stockholders of \$86.2 million and GAAP net income attributable to common stockholders of \$185.4 million for the three and six months ended June 30, 2022, respectively, resulted in comprehensive loss attributable to common stockholders of \$90.4 million and \$150.7 million for the three and six months ended June 30, 2022, respectively. For the three and six months ended June 30, 2021, net unrealized losses on AFS securities recognized as other comprehensive loss, net of tax, were \$62.9 million and \$334.4 million, respectively. This, combined with GAAP net loss attributable to common stockholders of \$131.7 million and GAAP net income attributable to common stockholders of \$91.2 million, resulted in comprehensive loss attributable to common stockholders of \$194.6 million and \$243.1 million for the three and six months ended June 30, 2021, respectively.

Our book value per common share for U.S. GAAP purposes was \$5.10 at June 30, 2022, a decrease from \$5.87 per common share at December 31, 2021. For the six months ended June 30, 2022, we recognized comprehensive loss attributable to common stockholders of \$150.7 million and declared common dividends of \$117.7 million, which drove the overall decrease in book value.

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The following tables present the components of our comprehensive loss for the three and six months ended June 30, 2022 and 2021:

(in thousands, except share data)

**Income Statement Data:**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022 (unaudited)	2021 (unaudited)	2022 (unaudited)	2021 (unaudited)
<b>Interest income:</b>				
Available-for-sale securities	\$ 55,399	\$ 43,092	\$ 100,046	\$ 98,744
Other	1,604	351	1,803	808
Total interest income	57,003	43,443	101,849	99,552
<b>Interest expense:</b>				
Repurchase agreements	19,269	6,981	27,612	15,451
Revolving credit facilities	9,106	7,075	14,782	11,770
Term notes payable	3,925	3,225	7,181	6,436
Convertible senior notes	4,801	7,126	9,843	13,476
Total interest expense	37,101	24,407	59,418	47,133
Net interest income	19,902	19,036	42,431	52,419
<b>Other (loss) income:</b>				
(Loss) gain on investment securities	(197,719)	(41,519)	(250,061)	91,349
Servicing income	157,526	112,816	294,152	219,935
Gain (loss) on servicing asset	85,557	(268,051)	496,181	59,387
Gain (loss) on interest rate swap and swaption agreements	32,734	24,648	(5,307)	9,049
(Loss) gain on other derivative instruments	(101,273)	51,312	(203,035)	(224,699)
Other (loss) income	(73)	41	(117)	(5,701)
Total other (loss) income	(23,248)	(120,753)	331,813	149,320
<b>Expenses:</b>				
Servicing expenses	22,991	18,680	47,695	43,627
Compensation and benefits	11,019	11,259	23,212	19,447
Other operating expenses	9,152	7,218	15,777	14,705
Total expenses	43,162	37,157	86,684	77,779
<b>(Loss) income before income taxes</b>				
Provision for (benefit from) income taxes	(46,508)	(138,874)	287,560	123,960
<b>Net (loss) income</b>	<b>(72,420)</b>	<b>(117,960)</b>	<b>212,850</b>	<b>122,197</b>
Dividends on preferred stock	13,748	13,747	27,495	30,963
<b>Net (loss) income attributable to common stockholders</b>	<b>\$ (86,168)</b>	<b>\$ (131,707)</b>	<b>\$ 185,355</b>	<b>\$ 91,234</b>
Basic (loss) earnings per weighted average common share	\$ (0.25)	\$ (0.48)	\$ 0.54	\$ 0.33
Diluted (loss) earnings per weighted average common share	\$ (0.25)	\$ (0.48)	\$ 0.51	\$ 0.32
Dividends declared per common share	\$ 0.17	\$ 0.17	\$ 0.34	\$ 0.34
<b>Weighted average number of shares of common stock:</b>				
Basic	344,277,723	273,718,561	344,138,889	273,714,684
Diluted	344,277,723	273,718,561	384,341,891	305,999,203

(in thousands) <b>Income Statement Data:</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(unaudited)		(unaudited)	
<b>Comprehensive loss:</b>				
Net (loss) income	\$ (72,420)	\$ (117,960)	\$ 212,850	\$ 122,197
<b>Other comprehensive loss, net of tax:</b>				
Unrealized loss on available-for-sale securities	(4,211)	(62,899)	(336,056)	(334,352)
Other comprehensive loss	(4,211)	(62,899)	(336,056)	(334,352)
<b>Comprehensive loss</b>	<b>(76,631)</b>	<b>(180,859)</b>	<b>(123,206)</b>	<b>(212,155)</b>
Dividends on preferred stock	13,748	13,747	27,495	30,963
<b>Comprehensive loss attributable to common stockholders</b>	<b>\$ (90,379)</b>	<b>\$ (194,606)</b>	<b>\$ (150,701)</b>	<b>\$ (243,118)</b>
 (in thousands) <b>Balance Sheet Data:</b>				
		<b>June 30, 2022</b>		<b>December 31, 2021</b>
		(unaudited)		
Available-for-sale securities		\$ 8,789,437	\$ 7,161,703	
Mortgage servicing rights		\$ 3,226,191	\$ 2,191,578	
Total assets		\$ 13,737,450	\$ 12,114,305	
Repurchase agreements		\$ 7,958,247	\$ 7,656,445	
Revolving credit facilities		\$ 825,761	\$ 420,761	
Term notes payable		\$ 397,383	\$ 396,776	
Convertible senior notes		\$ 281,711	\$ 424,827	
Total stockholders' equity		\$ 2,483,624	\$ 2,743,953	

### Results of Operations

The following analysis focuses on financial results during the three and six months ended June 30, 2022 and 2021.

#### Interest Income

Interest income increased from \$43.4 million and \$99.6 million for the three and six months ended June 30, 2021 to \$57.0 million and \$101.8 million for the same periods in 2022 due to higher coupon and lower amortization recognized on Agency RMBS due to slower prepayments.

#### Interest Expense

Interest expense increased from \$24.4 million and \$47.1 million for the three and six months ended June 30, 2021, respectively, to \$37.1 million and \$59.4 million for the same periods in 2022 due primarily to the higher interest rate environment as well as an increase in financing on MSR, offset by a decrease in financing on a smaller Agency RMBS portfolio and the maturity of our convertible senior notes due 2022.

### Net Interest Income

The following tables present the components of interest income and average net asset yield earned by asset type, the components of interest expense and average cost of funds on borrowings incurred by collateral type, and net interest income and average net interest spread for the three and six months ended June 30, 2022 and 2021:

(dollars in thousands)	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Average <sup>(1)</sup> Balance	Interest Income/Expense	Net Yield/Cost of Funds <sup>(2)</sup>	Average <sup>(1)</sup> Balance	Interest Income/Expense	Net Yield/Cost of Funds <sup>(2)</sup>
<b>Interest-earning assets:</b>						
Available-for-sale securities	\$ 7,248,502	\$ 55,399	3.1 %	\$ 7,275,550	\$ 100,046	2.8 %
Other	—	1,604	— %	—	1,803	— %
<b>Total interest income/net asset yield</b>	<b>\$ 7,248,502</b>	<b>\$ 57,003</b>	<b>3.1 %</b>	<b>\$ 7,275,550</b>	<b>\$ 101,849</b>	<b>2.8 %</b>
<b>Interest-bearing liabilities:</b>						
Borrowings collateralized by:						
Available-for-sale securities	\$ 7,012,474	\$ 12,955	0.7 %	\$ 7,301,518	\$ 17,742	0.5 %
Agency Derivatives <sup>(3)</sup>	27,074	93	1.4 %	30,997	158	1.0 %
Mortgage servicing rights and advances <sup>(4)</sup>	1,628,474	19,252	4.7 %	1,420,473	31,675	4.5 %
Unsecured borrowings:						
Convertible senior notes	281,608	4,801	6.8 %	292,637	9,843	6.7 %
<b>Total interest expense/cost of funds</b>	<b>\$ 8,949,630</b>	<b>\$ 37,101</b>	<b>1.7 %</b>	<b>\$ 9,045,625</b>	<b>\$ 59,418</b>	<b>1.3 %</b>
<b>Net interest income/spread<sup>(5)</sup></b>	<b>\$ 19,902</b>		<b>1.4 %</b>	<b>\$ 42,431</b>		<b>1.5 %</b>
(dollars in thousands)	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	Average <sup>(1)</sup> Balance	Interest Income/Expense	Net Yield/Cost of Funds <sup>(2)</sup>	Average <sup>(1)</sup> Balance	Interest Income/Expense	Net Yield/Cost of Funds <sup>(2)</sup>
<b>Interest-earning assets:</b>						
Available-for-sale securities	\$ 9,073,951	\$ 43,092	1.9 %	\$ 10,512,788	\$ 98,744	1.9 %
Other	—	351	— %	—	808	— %
<b>Total interest income/net asset yield</b>	<b>\$ 9,073,951</b>	<b>\$ 43,443</b>	<b>1.9 %</b>	<b>\$ 10,512,788</b>	<b>\$ 99,552</b>	<b>1.9 %</b>
<b>Interest-bearing liabilities:</b>						
Borrowings collateralized by:						
Available-for-sale securities	\$ 9,649,189	\$ 5,687	0.2 %	\$ 11,217,274	\$ 14,051	0.3 %
Agency Derivatives <sup>(3)</sup>	44,067	89	0.8 %	46,645	195	0.8 %
Mortgage servicing rights and advances <sup>(4)</sup>	1,012,706	11,505	4.5 %	909,365	19,411	4.3 %
Unsecured borrowings:						
Convertible senior notes	423,613	7,126	6.7 %	399,852	13,476	6.7 %
<b>Total interest expense/cost of funds</b>	<b>\$ 11,129,575</b>	<b>\$ 24,407</b>	<b>0.9 %</b>	<b>\$ 12,573,136</b>	<b>\$ 47,133</b>	<b>0.7 %</b>
<b>Net interest income/spread<sup>(5)</sup></b>	<b>\$ 19,036</b>		<b>1.0 %</b>	<b>\$ 52,419</b>		<b>1.2 %</b>

(1) Average asset balance represents average amortized cost on AFS securities and average unpaid principal balance on other assets.

(2) Cost of funds does not include the accrual and settlement of interest associated with interest rate swaps. In accordance with U.S. GAAP, those costs are included in gain (loss) on interest rate swap and swaption agreements in the condensed consolidated statements of comprehensive loss. For the three and six months ended June 30, 2022, our total average cost of funds on the assets assigned as collateral for borrowings shown in the table above, including interest spread expense associated with interest rate swaps, was 1.8% and 1.4%, respectively, compared to 0.8% and 0.7% for the same periods in 2021.

(3) Yields on Agency Derivatives not shown as interest income is included in (loss) gain on other derivative instruments in the condensed consolidated statements of comprehensive loss.

(4) Yields on mortgage servicing rights and advances not shown as these assets do not earn interest.

(5) Net interest spread does not include the accrual and settlement of interest associated with interest rate swaps. In accordance with U.S. GAAP, those costs are included in gain (loss) on interest rate swap and swaption agreements in the condensed consolidated statements of comprehensive loss. For the three and six months ended June 30, 2022, our total average net interest rate spread on the assets and liabilities shown in the table above, including interest spread expense associated with interest rate swaps, was 1.3% and 1.4%, respectively, compared to 1.1% and 1.2% for the same periods in 2021.

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The increase in yields on AFS securities for the three and six months ended June 30, 2022, as compared to the same periods in 2021 was driven by lower amortization as a result of slower prepayment speeds. The increase in cost of funds associated with the financing of AFS securities for the three and six months ended June 30, 2022, as compared to the same periods in 2021, was due to rising interest rates.

The increase in cost of funds associated with the financing of Agency Derivatives for the three and six months ended June 30, 2022, as compared to the same periods in 2021, was the result of rising interest rates.

The increase in cost of funds associated with the financing of MSR assets and related servicing advance obligations for the three and six months ended June 30, 2022, as compared to the same periods in 2021, was due to rising interest rates and an increase in the use of revolving credit facility and repurchase agreement financing versus term notes financing, which carry lower rates. We have one revolving credit facility in place to finance our servicing advance obligations, which are included in other assets on our condensed consolidated balance sheets.

The cost of funds associated with our convertible senior notes for the three and six months ended June 30, 2022, as compared to the same periods in 2021, was consistent.

The following tables present the components of the yield earned on our AFS securities portfolio as a percentage of our average amortized cost of securities for the three and six months ended June 30, 2022 and 2021:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Gross yield/stated coupon	4.3 %	4.7 %	4.3 %	4.4 %
Net (premium amortization) discount accretion	(1.2)%	(2.8)%	(1.5)%	(2.5)%
Net yield <sup>(1)</sup>	3.1 %	1.9 %	2.8 %	1.9 %

(1) Excludes Agency Derivatives. For the three and six months ended June 30, 2022, the average net yield on total RMBS, including Agency Derivatives, was 3.1% and 2.8%, respectively, compared to 1.9% for both of the same periods in 2021. Yields have not been adjusted for cost of delay and cost to carry purchase premiums.

#### **(Loss) Gain On Investment Securities**

The following table presents the components of (loss) gain on investment securities for the three and six months ended June 30, 2022 and 2021:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Proceeds from sales	\$ 2,326,528	\$ 2,549,602	\$ 4,339,148	\$ 4,600,544
Amortized cost of securities sold	(2,514,613)	(2,532,087)	(4,582,084)	(4,516,832)
Total realized (losses) gains on sales	(188,085)	17,515	(242,936)	83,711
Provision for credit losses	(537)	(7,392)	(1,651)	(6,257)
Other	(9,097)	(51,642)	(5,474)	13,891
(Loss) gain on investment securities	\$ (197,719)	\$ (41,519)	\$ (250,061)	\$ 91,344

In the ordinary course of our business, we make investment decisions and allocate capital in accordance with our views on the changing risk/reward dynamics in the market and in our portfolio. We do not expect to sell assets on a frequent basis, but may sell assets to reallocate capital into new assets that we believe have higher risk-adjusted returns.

We use a discounted cash flow method to estimate and recognize an allowance for credit losses on AFS securities. Subsequent adverse or favorable changes in expected cash flows are recognized immediately in earnings as a provision for or reversal of provision for credit losses (within (loss) gain on investment securities).

The majority of the “other” component of (loss) gain on investment securities is related to changes in unrealized gains (losses) on certain AFS securities for which we have elected the fair value option. For the three and six months ended June 30, 2022, the unrealized losses recognized were primarily due to faster prepayment assumptions.

### Servicing Income

The following table presents the components of servicing income for the three and six months ended June 30, 2022 and 2021:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Servicing fee income	\$ 153,620	\$ 111,083	\$ 288,834	\$ 216,248
Ancillary and other fee income	561	622	1,031	1,238
Float income	3,345	1,111	4,287	2,449
Total	\$ 157,526	\$ 112,816	\$ 294,152	\$ 219,935

The increase in servicing income for the three and six months ended June 30, 2022, as compared to the same periods in 2021, was due to a higher portfolio balance, lower compensating interest and higher float income.

### Gain (Loss) On Servicing Asset

The following table presents the components of gain (loss) on servicing asset for the three and six months ended June 30, 2022 and 2021:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	\$ 199,272	\$ (72,910)	\$ 724,185	\$ 428,783
Changes in fair value due to realization of cash flows (runoff)	(113,715)	(195,141)	(228,004)	(369,396)
Gain (loss) on servicing asset	\$ 85,557	\$ (268,051)	\$ 496,181	\$ 59,387

The increase in gain (decrease in loss) on servicing asset for the three and six months ended June 30, 2022, as compared to the same periods in 2021, was driven by favorable change in valuation assumptions used in the fair valuation of MSR and a decrease in portfolio runoff.

### Gain (Loss) On Interest Rate Swap And Swaption Agreements

The following table summarizes the net interest spread and gains and losses associated with our interest rate swap and swaption positions recognized during the three and six months ended June 30, 2022 and 2021:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net interest spread	\$ (4,267)	\$ 2,399	\$ (5,008)	\$ 4,049
Early termination, agreement maturation and option expiration gains	246,211	8,642	189,947	2,292
Change in unrealized (loss) gain on interest rate swap and swaption agreements, at fair value	(209,210)	13,607	(190,246)	2,708
Gain (loss) on interest rate swap and swaption agreements	\$ 32,734	\$ 24,648	\$ (5,307)	\$ 9,049

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Net interest spread recognized for the accrual and/or settlement of the net interest expense associated with our interest rate swaps results from receiving either a floating interest rate (OIS or SOFR) or a fixed interest rate and paying either a fixed interest rate or a floating interest rate (OIS or SOFR) on positions held to economically hedge/mitigate portfolio interest rate exposure (or duration) risk. We may elect to terminate certain swaps and swaptions to align with our investment portfolio, agreements may mature or options may expire resulting in full settlement of our net interest spread asset/liability and the recognition of realized gains and losses, including early termination penalties. The change in fair value of interest rate swaps and swaptions during the three and six months ended June 30, 2022 and 2021 was a result of changes to floating interest rates (OIS or SOFR), the swap curve and corresponding counterparty borrowing rates. Since swaps and swaptions are used for purposes of hedging our interest rate exposure, their unrealized valuation gains and losses (excluding the reversal of unrealized gains and losses to realized gains and losses upon termination, maturation or option expiration) are generally offset by unrealized losses and gains in our Agency RMBS AFS portfolio, which are recorded either directly to stockholders' equity through other comprehensive loss, net of tax, or to (loss) gain on investment securities, in the case of certain AFS securities for which we have elected the fair value option.

**(Loss) Gain On Other Derivative Instruments**

The following table provides a summary of the total net gains (losses) recognized on other derivative instruments we hold for purposes of both hedging and non-hedging activities, principally TBAs, futures, options on futures, and inverse interest-only securities during the three and six months ended June 30, 2022 and 2021:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest income, net of accretion, on inverse interest-only securities	\$ 304	\$ 1,309	\$ 1,157	\$ 3,184
Realized and unrealized net gains (losses) on other derivative instruments	(101,577)	50,003	(204,192)	(227,883)
(Loss) gain on other derivative instruments	<u>\$ (101,273)</u>	<u>\$ 51,312</u>	<u>\$ (203,035)</u>	<u>\$ (224,699)</u>

(1) As these derivative instruments are considered trading instruments, our financial results include both realized and unrealized gains (losses) associated with these instruments.

For further details regarding our use of derivative instruments and related activity, refer to Note 7 - *Derivative Instruments and Hedging Activities* to the condensed consolidated financial statements, included in this Quarterly Report on Form 10-Q.

**Expenses**

The following table presents the components of expenses for the three and six months ended June 30, 2022 and 2021:

(in thousands, except share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Servicing expenses	\$ 22,991	\$ 18,680	\$ 47,695	\$ 43,627
Operating expenses:				
Compensation and benefits:				
Non-cash equity compensation expenses	\$ 3,461	\$ 4,611	\$ 7,622	\$ 6,401
All other compensation and benefits	7,558	6,648	15,590	13,046
Total compensation and benefits	<u>\$ 11,019</u>	<u>\$ 11,259</u>	<u>\$ 23,212</u>	<u>\$ 19,447</u>
Other operating expenses:				
Nonrecurring expenses	\$ 2,428	\$ 1,397	\$ 3,117	\$ 3,368
All other operating expenses	6,724	5,821	12,660	11,337
Total other operating expenses	<u>\$ 9,152</u>	<u>\$ 7,218</u>	<u>\$ 15,777</u>	<u>\$ 14,705</u>
Annualized operating expense ratio	3.1 %	2.8 %	2.9 %	2.4 %
Annualized operating expense ratio, excluding non-cash equity compensation and other nonrecurring expenses	<u>2.2 %</u>	<u>1.9 %</u>	<u>2.1 %</u>	<u>1.7 %</u>

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We incur servicing expenses generally related to the subservicing of MSR. The increase in servicing expenses during the three and six months ended June 30, 2022, as compared to the same periods in 2021, was a result of an increase in portfolio size and subservicing fees.

The increase in total operating expenses during the three months ended June 30, 2022, as compared to the same period in 2021, was driven by higher cash compensation and benefits, nonrecurring and other operating expenses, offset by lower non-cash equity compensation expense. The increase in total operating expenses during the six months ended June 30, 2022, as compared to the same period in 2021, was driven by higher total compensation and benefits and other operating expenses, offset by a slight decrease in nonrecurring expenses.

### **Income Taxes**

During the three and six months ended June 30, 2022, the Company's TRSs recognized a provision for income taxes of \$25.9 million and \$74.7 million, respectively, which was primarily due to income from MSR servicing activities and gains recognized on MSR, offset by net losses recognized on derivative instruments and operating expenses. During the three months ended June 30, 2021, the Company's TRSs recognized a benefit from income taxes of \$20.9 million, which was primarily due to losses recognized on MSR, offset by net gains recognized on derivative instruments held in the Company's TRSs. During the six months ended June 30, 2021, the Company's TRSs recognized a provision for income taxes of \$1.8 million, which was primarily due to gains recognized on MSR, offset by net losses recognized on derivative instruments held in the Company's TRSs.

### **Financial Condition**

#### *Available-for-Sale Securities, at Fair Value*

The majority of our AFS investment securities portfolio is comprised of fixed rate Agency mortgage-backed securities backed by single-family and multi-family mortgage loans. We also hold \$87.5 million in tranches of mortgage-backed and asset-backed P&I and interest-only non-Agency securities. All of our P&I Agency RMBS AFS are Fannie Mae or Freddie Mac mortgage pass-through certificates or collateralized mortgage obligations that carry an implied rating of "AAA," or Ginnie Mae mortgage pass-through certificates, which are backed by the guarantee of the U.S. government. The majority of these securities consist of whole pools in which we own all of the investment interests in the securities.

The table below summarizes certain characteristics of our Agency RMBS AFS at June 30, 2022:

(dollars in thousands, except purchase price)	June 30, 2022								Weighted Average Coupon Rate	Weighted Average Purchase Price
	Principal/ Current Face	Net (Discount) Premium	Amortized Cost	Allowance for Credit Losses	Unrealized Gain	Unrealized Loss	Carrying Value			
P&I securities	\$ 8,603,008	\$ 160,964	\$ 8,763,972	\$ —	\$ 17,675	\$ (197,154)	\$ 8,584,493	4.11 %	\$ 102.24	
Interest-only securities	1,665,968	116,302	116,302	(9,403)	15,941	(5,386)	117,454	2.91 %	\$ 15.18	
Total	<u>\$ 10,268,976</u>	<u>\$ 277,266</u>	<u>\$ 8,880,274</u>	<u>\$ (9,403)</u>	<u>\$ 33,616</u>	<u>\$ (202,540)</u>	<u>\$ 8,701,947</u>			

#### *Mortgage Servicing Rights, at Fair Value*

One of our wholly owned subsidiaries has approvals from Fannie Mae and Freddie Mac to own and manage MSR, which represent the right to control the servicing of mortgage loans. We do not directly service mortgage loans, and instead contract with appropriately licensed subservicers to handle substantially all servicing functions in the name of the subservicer for the loans underlying our MSR. As of June 30, 2022, our MSR had a fair market value of \$3.2 billion.

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As of June 30, 2022, our MSR portfolio included MSR on 901,244 loans with an unpaid principal balance of approximately \$227.1 billion. The following table summarizes certain characteristics of the loans underlying our MSR by gross weighted average coupon rate types and ranges at June 30, 2022:

(dollars in thousands)	June 30, 2022									
	Number of Loans	Unpaid Principal Balance	Weighted Average Gross Coupon Rate	Weighted Average Current Loan Size	Weighted Average Loan Age (months)	Weighted Average Original FICO	Weighted Average Original LTV	60+ Day Delinquencies	3-Month CPR	Net Servicing Fee (bps)
<b>30-Year Fixed:</b>										
≤ 3.25%	317,255	\$ 103,224,845	2.8 %	\$ 384	17	768	70.9 %	0.3 %	6.5 %	25.8
> 3.25 - 3.75%	166,905	43,437,555	3.4 %	323	31	754	74.3 %	0.7 %	10.6 %	26.3
> 3.75 - 4.25%	121,848	25,817,483	3.9 %	272	54	752	75.7 %	1.3 %	14.6 %	27.3
> 4.25 - 4.75%	73,644	13,481,431	4.4 %	247	58	737	77.4 %	2.6 %	18.8 %	26.3
> 4.75 - 5.25%	36,249	6,123,075	4.9 %	248	50	725	78.6 %	3.9 %	21.0 %	27.2
> 5.25%	17,658	2,992,856	5.6 %	273	34	718	80.0 %	4.0 %	24.0 %	29.4
	<b>733,559</b>	<b>195,077,245</b>	<b>3.3 %</b>	<b>340</b>	<b>29</b>	<b>758</b>	<b>73.1 %</b>	<b>80.0 %</b>	<b>10.1 %</b>	<b>26.2</b>
<b>15-Year Fixed:</b>										
≤ 2.25%	26,448	7,771,459	2.0 %	344	14	777	58.7 %	0.1 %	5.2 %	25.1
> 2.25 - 2.75%	49,704	11,528,442	2.4 %	285	18	773	58.7 %	0.1 %	7.4 %	25.8
> 2.75 - 3.25%	45,008	7,158,465	2.9 %	216	43	767	61.3 %	0.2 %	11.0 %	26.2
> 3.25 - 3.75%	26,269	3,163,141	3.4 %	170	58	757	64.1 %	0.6 %	15.2 %	27.4
> 3.75 - 4.25%	11,889	1,191,435	3.89	152	57	743	65.2 %	1.0 %	16.4 %	28.8
> 4.25%	5,462	466,547	4.5 %	135	49	727	65.9 %	1.9 %	19.2 %	31.2
	<b>164,780</b>	<b>31,279,489</b>	<b>2.6 %</b>	<b>265</b>	<b>29</b>	<b>769</b>	<b>60.2 %</b>	<b>0.3 %</b>	<b>9.1 %</b>	<b>26.1</b>
Total ARMs	<b>2,905</b>	<b>717,679</b>	<b>3.1 %</b>	<b>321</b>	<b>55</b>	<b>762</b>	<b>67.9 %</b>	<b>1.6 %</b>	<b>25.1 %</b>	<b>25.4</b>
<b>Total</b>	<b>901,244</b>	<b>\$ 227,074,413</b>	<b>3.2 %</b>	<b>\$ 330</b>	<b>29</b>	<b>760</b>	<b>71.3 %</b>	<b>0.8 %</b>	<b>10.0 %</b>	<b>26.2</b>

### Financing

Our borrowings consist primarily of repurchase agreements, revolving credit facilities, term notes payable and convertible senior notes. Repurchase agreements, revolving credit facilities and term notes payable are collateralized by our pledge of AFS securities, derivative instruments, MSR, servicing advances and certain cash balances. Substantially all of our Agency RMBS are currently pledged as collateral, and a portion of our non-Agency securities have been pledged as collateral for repurchase agreements. Additionally, a substantial portion of our MSR is currently pledged as collateral for repurchase agreements, revolving credit facilities and term notes payable, and a portion of our servicing advances have been pledged as collateral for revolving credit facilities. In connection with our securitization of MSR and issuance of term notes payable, a variable funding note, or VFN, was issued to one of our subsidiaries. We have one repurchase facility that is secured by the VFN, which is collateralized by our MSR. Finally, our convertible senior notes due 2026 are unsecured and pay interest semiannually at a rate of 6.25% per annum.

Some of our financing arrangements incorporate LIBOR as the referenced rate; however all arrangements either mature prior to the phase out of LIBOR or have provisions in place that provide for an alternative to LIBOR upon its phase-out. See Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Market Conditions and Outlook - LIBOR transition” in this Quarterly Report on Form 10-Q for further discussion.

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At June 30, 2022, borrowings under repurchase agreements, revolving credit facilities, term notes payable and convertible senior notes had the following characteristics:

(dollars in thousands)

Borrowing Type		June 30, 2022
	Amount Outstanding	Weighted Average Borrowing Rate
		Weighted Average Years to Maturity
Repurchase agreements	\$ 7,958,247	1.48 %
Revolving credit facilities	825,761	4.93 %
Term notes payable	397,383	4.42 %
Convertible senior notes <sup>(1)</sup>	281,711	6.25 %
Total	<u>\$ 9,463,102</u>	2.04 %
		0.5

(dollars in thousands)

Collateral Type		June 30, 2022
	Amount Outstanding	Weighted Average Borrowing Rate
		Weighted Average Haircut on Collateral Value
Agency RMBS	\$ 7,487,568	1.27 %
Non-Agency securities	47,934	2.44 %
Agency Derivatives	22,745	1.89 %
Mortgage servicing rights	1,593,944	4.86 %
Mortgage servicing advances	29,200	4.61 %
Other <sup>(1)</sup>	281,711	6.25 %
Total	<u>\$ 9,463,102</u>	2.04 %
		8.4 %

(1) Includes unsecured convertible senior notes due 2026 paying interest semianually at a rate of 6.25% per annum on the aggregate principal amount of \$287.5 million.

As of June 30, 2022, the debt-to-equity ratio funding our AFS securities, MSR, servicing advances and Agency Derivatives, which includes unsecured borrowings under convertible senior notes, was 3.8:1.0. As previously discussed, our Agency RMBS, given their liquidity and high credit quality, are eligible for higher levels of leverage, while MSR, with less liquidity and/or more exposure to prepayment risk, utilize lower levels of leverage. Generally, our debt-to-equity ratio is directly correlated to the composition of our portfolio; typically, the higher the percentage of Agency RMBS we hold, the higher our debt-to-equity ratio will be. However, in addition to portfolio mix, our debt-to-equity ratio is a function of many other factors, including the liquidity of our portfolio, the availability and price of our financing, the diversification of our counterparties and their available capacity to finance our assets, and anticipated regulatory developments. We may alter the percentage allocation of our portfolio among our target assets depending on the relative value of the assets that are available to purchase from time to time, including at times when we are deploying proceeds from offerings we conduct. We believe the current degree of leverage within our portfolio helps ensure that we have access to unused borrowing capacity, thus supporting our liquidity and the strength of our balance sheet.

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The following table provides a summary of our borrowings under repurchase agreements, revolving credit facilities, term notes payable and convertible senior notes, our net TBA cost basis amounts and our debt-to-equity ratios for the three months ended June 30, 2022, and the four immediately preceding quarters:

(dollars in thousands)

For the Three Months Ended	Quarterly Average	End of Period Balance	Maximum Balance of Any Month-End	End of Period Total Borrowings to Equity Ratio	End of Period Net Long (Short) TBA Cost Basis	End of Period Economic Debt-to-Equity Ratio <sup>(1)</sup>
June 30, 2022	\$ 8,949,630	\$ 9,463,102	\$ 9,463,102	3.8:1.0	\$ 6,409,396	6.4:1.0
March 31, 2022	\$ 9,139,305	\$ 9,121,894	\$ 9,366,946	3.5:1.0	\$ 4,737,226	5.3:1.0
December 31, 2021	\$ 7,908,651	\$ 8,898,809	\$ 8,898,809	3.2:1.0	\$ 4,238,881	4.8:1.0
September 30, 2021	\$ 8,888,607	\$ 8,365,211	\$ 9,060,624	3.1:1.0	\$ 9,019,509	6.4:1.0
June 30, 2021	\$ 11,129,575	\$ 9,704,066	\$ 12,837,520	3.9:1.0	\$ 7,161,265	6.8:1.0

(1) Defined as total borrowings under repurchase agreements, revolving credit facilities, term notes payable and convertible senior notes, plus implied debt on net TBA cost basis, divided by total equity.

### Equity

The following table provides details of our changes in stockholders' equity from March 31, 2022 to June 30, 2022:

(dollars in millions, except per share amounts)	Book Value	Common Shares Outstanding	Common Book Value Per Share
Common stockholders' equity at March 31, 2022	\$ 1,903.0	344.1	\$ 5.53
Earnings available for distribution, net of tax expense of \$1.7 million <sup>(1)</sup>	89.0		
Dividends on preferred stock	(13.7)		
Earnings available for distribution to common stockholders, net of tax expense of \$1.7 million <sup>(1)</sup>	75.3		
Realized and unrealized gains and losses, net of tax expense of \$24.2 million	(161.5)		
Other comprehensive loss, net of tax	(4.2)		
Dividend declaration	(58.9)		
Other	3.5		0.3
Issuance of common stock, net of offering costs	0.1		—
Common stockholders' equity at June 30, 2022	\$ 1,757.3	344.4	\$ 5.10
Total preferred stock liquidation preference	726.3		
Total stockholders' equity at June 30, 2022	<u><u>\$ 2,483.6</u></u>		

(1) Earnings Available for Distribution, or EAD, is a non-GAAP measure that we define as comprehensive loss attributable to common stockholders, excluding realized and unrealized gains and losses on the aggregate portfolio, provision for (reversal of) credit losses, reserve expense for representation and warranty obligations on MSR, non-cash compensation expense related to restricted common stock and other nonrecurring expenses. As defined, EAD includes net interest income, accrual and settlement of interest on derivatives, dollar roll income on TBAs, U.S. Treasury futures income, servicing income, net of estimated amortization on MSR and recurring cash related operating expenses. EAD provides supplemental information to assist investors in analyzing the Company's results of operations and helps facilitate comparisons to industry peers. EAD is one of several measures our board of directors considers to determine the amount of dividends to declare on our common stock and should not be considered an indication of our taxable income or as a proxy for the amount of dividends we may declare.

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The following table provides a reconciliation of comprehensive loss and GAAP net income to non-GAAP measures for the three months ended June 30, 2022:

(in millions)	<b>Three Months Ended June 30, 2022</b>
Comprehensive loss attributable to common stockholders	\$ (90.4)
Adjustment for other comprehensive loss attributable to common stockholders:	
Unrealized losses on available-for-sale securities	4.2
Net loss attributable to common stockholders	(86.2)
Adjustments for non-EAD <sup>(1)</sup> :	
Realized losses on investment securities	187.6
Unrealized losses on investment securities	9.6
Provision for credit losses on investment securities	0.5
Realized and unrealized gains on mortgage servicing rights	(85.6)
Realized gain on termination or expiration of interest rate swaps and swaptions	(246.2)
Unrealized losses on interest rate swaps and swaptions	209.2
Realized and unrealized losses on other derivative instruments	101.6
Adjustments to exclude reported realized and unrealized (gains) losses:	
MSR amortization <sup>(1)</sup>	(81.4)
TBA dollar roll income <sup>(2)</sup>	57.7
U.S. Treasury futures income <sup>(3)</sup>	(20.6)
Change in servicing reserves	(1.1)
Non-cash equity compensation expense	3.5
Other nonrecurring expenses	2.4
Net provision for income taxes on non-EAD <sup>(4)</sup>	24.2
Earnings available for distribution to common stockholders <sup>(4)</sup>	\$ 75.3

(1) MSR amortization refers to the portion of change in fair value of MSR primarily attributed to the realization of expected cash flows (runoff) of the portfolio, which is deemed a non-GAAP measure due to the company's decision to account for MSR at fair value.

(2) TBA dollar roll income is the economic equivalent to holding and financing Agency RMBS using short-term repurchase agreements.

(3) U.S. Treasury futures income is the economic equivalent to holding and financing a relevant cheapest-to-deliver U.S. Treasury note or bond using short-term repurchase agreements.

(4) EAD is a non-GAAP measure that we define as comprehensive loss attributable to common stockholders, excluding realized and unrealized gains and losses on the aggregate portfolio, provision for (reversal of) credit losses, reserve expense for representation and warranty obligations on MSR, non-cash compensation expense related to restricted common stock and other nonrecurring expenses. As defined, EAD includes net interest income, accrual and settlement of interest on derivatives, dollar roll income on TBAs, U.S. Treasury futures income, servicing income, net of estimated amortization on MSR and recurring cash related operating expenses. EAD provides supplemental information to assist investors in analyzing the Company's results of operations and helps facilitate comparisons to industry peers. EAD is one of several measures our board of directors considers to determine the amount of dividends to declare on our common stock and should not be considered an indication of our taxable income or as a proxy for the amount of dividends we may declare.

#### Liquidity and Capital Resources

Our liquidity and capital resources are managed and forecasted on a daily basis. We believe this ensures that we have sufficient liquidity to absorb market events that could negatively impact collateral valuations and result in margin calls. We also believe that it gives us the flexibility to manage our portfolio to take advantage of market opportunities.

Our principal sources of cash consist of borrowings under repurchase agreements, revolving credit facilities, term notes payable, payments of principal and interest we receive on our target assets, cash generated from our operating results, and proceeds from capital market transactions. We typically use cash to repay principal and interest on our borrowings, to purchase our target assets, to make dividend payments on our capital stock, and to fund our operations. To the extent that we raise additional equity capital through capital market transactions, we anticipate using cash proceeds from such transactions to purchase our target assets and for other general corporate purposes. Such general corporate purposes may include the refinancing or repayment of debt, the repurchase or redemption of common and preferred equity securities, and other capital expenditures.

As of June 30, 2022, we held \$511.9 million in cash and cash equivalents available to support our operations; \$12.0 billion of AFS securities, MSR, and derivative assets held at fair value; and \$9.5 billion of outstanding debt in the form of repurchase agreements, borrowings under revolving credit facilities, term notes payable and convertible senior notes. During the three and six months ended June 30, 2022, the debt-to-equity ratio funding our AFS securities, MSR and Agency Derivatives, which includes unsecured borrowings under convertible senior notes, increased from 3.5:1.0 to 3.8:1.0 and 3.2:1.0 to 3.8:1.0, respectively. The increase was due to increased financing on Agency RMBS and MSR purchases as well as a decrease in equity. During the three and six months ended June 30, 2022, our economic debt-to-equity ratio funding our AFS securities, MSR and Agency Derivatives, which includes unsecured borrowings under convertible senior notes and implied debt on net TBA cost basis, increased from 5.3:1.0 to 6.4:1.0 and 4.8:1.0 to 6.4:1.0, respectively.

As of June 30, 2022, we held approximately \$1.4 billion of unpledged AFS securities and Agency derivatives, which includes \$1.3 billion of unsettled Agency RMBS purchases, and \$7.6 million of unpledged non-Agency securities. As a result, we had an overall estimated unused borrowing capacity on unpledged securities of approximately \$26.4 million. As of June 30, 2022, we held approximately \$46.9 million of unpledged MSR and \$64.7 million of unpledged servicing advances. Overall, we had unused committed borrowing capacity on MSR asset and servicing advance financing facilities of \$218.8 million and \$170.8 million, respectively. Generally, unused borrowing capacity may be the result of our election not to utilize certain financing, as well as delays in the timing in which funding is provided, insufficient collateral or the inability to meet lenders' eligibility requirements for specific types of asset classes. On a daily basis, we monitor and forecast our available, or excess, liquidity. Additionally, we frequently perform shock analyses against various market events to monitor the adequacy of our excess liquidity. If borrowing rates and/or collateral requirements change in the near term, we believe we are subject to less earnings volatility than a more leveraged organization.

During the six months ended June 30, 2022, we did not experience any material issues accessing our funding sources. We expect ongoing sources of financing to be primarily repurchase agreements, revolving credit facilities, term notes payable, convertible notes and similar financing arrangements. We plan to finance our assets with a moderate amount of leverage, the level of which may vary based upon the particular characteristics of our portfolio and market conditions.

As of June 30, 2022, we had master repurchase agreements in place with 39 counterparties (lenders), the majority of which are U.S. domiciled financial institutions, and we continue to evaluate additional counterparties to manage and optimize counterparty risk. Under our repurchase agreements, we are required to pledge additional assets as collateral to our lenders when the estimated fair value of the existing pledged collateral under such agreements declines and such lenders, through a margin call, demand additional collateral. Lenders generally make margin calls because of a perceived decline in the value of our assets collateralizing the repurchase agreements. This may occur following the monthly principal reduction of assets due to scheduled amortization and prepayments on the underlying mortgages, or may be caused by changes in market interest rates, a perceived decline in the market value of the investments and other market factors. To cover a margin call, we may pledge additional assets or cash. At maturity, any cash on deposit as collateral is generally applied against the repurchase agreement balance, thereby reducing the amount borrowed. Should the value of our assets suddenly decrease, significant margin calls on our repurchase agreements could result, causing an adverse change in our liquidity position.

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In addition to our master repurchase agreements to fund our Agency and non-Agency securities, we have one repurchase facility and three revolving credit facilities that provide short- and long-term financing for our MSR portfolio. We also have one revolving credit facility that provides short-term financing for our servicing advances. An overview of the facilities is presented in the table below:

(dollars in thousands)

June 30, 2022

Expiration Date <sup>(1)</sup>	Amount Outstanding	Unused Committed Capacity <sup>(2)</sup>	Uncommitted Capacity	Total Capacity	Eligible Collateral
April 4, 2024	\$ 590,311	\$ —	\$ 109,689	\$ 700,000	Mortgage servicing rights
February 8, 2023	\$ 400,000	\$ —	\$ 250,000	\$ 650,000	Mortgage servicing rights <sup>(3)</sup>
March 20, 2024	\$ 146,250	\$ 78,750	\$ 75,000	\$ 300,000	Mortgage servicing rights <sup>(4)</sup>
June 30, 2023	\$ 60,000	\$ 140,000	\$ —	\$ 200,000	Mortgage servicing rights
September 28, 2022	\$ 29,200	\$ 170,800	\$ —	\$ 200,000	Mortgage servicing advances

(1) The facilities are set to mature on the stated expiration date, unless extended pursuant to their terms.

(2) Represents unused capacity amounts to which commitment fees are charged.

(3) This repurchase facility is secured by a VFN issued in connection with our securitization of MSR, which is collateralized by our MSR. During the three months ended June 30, 2022, the total capacity of this repurchase facility was temporarily upsized by \$150.0 million, from \$500.0 million to \$650.0 million. This temporary upsizing expired on July 25, 2022, at which time the total capacity reverted to \$500.0 million.

(4) The revolving period of this facility ceases on March 17, 2023, at which time the facility starts a 12-month amortization period.

We are subject to a variety of financial covenants under our lending agreements. The following represent the most restrictive financial covenants across our lending agreements as of June 30, 2022:

- Total indebtedness to tangible net worth must be less than 8.0:1.0. As of June 30, 2022, our total indebtedness to tangible net worth, as defined, was 4.4:1.0.
- Cash liquidity must be greater than \$200.0 million. As of June 30, 2022, our liquidity, as defined, was \$511.9 million.
- Net worth must be greater than the higher of \$1.5 billion or 50% of the highest net worth during the 24 calendar months prior, measured beginning March 31, 2020. As of June 30, 2022, 50% of the highest net worth during the 24 calendar months prior, as defined, was \$1.6 billion and our net worth, as defined, was \$2.5 billion.

We are also subject to additional financial covenants in connection with various other agreements we enter into in the normal course of our business. We intend to continue to operate in a manner which complies with all of our financial covenants.

The following table summarizes assets at carrying values that were pledged or restricted as collateral for the future payment obligations of repurchase agreements, revolving credit facilities, term notes payable and derivative instruments at June 30, 2022 and December 31, 2021:

(in thousands)	June 30, 2022	December 31, 2021
Available-for-sale securities, at fair value	\$ 7,420,521	\$ 7,009,449
Mortgage servicing rights, at fair value	3,179,285	2,130,807
Restricted cash	363,137	747,979
Due from counterparties	111,724	33,718
Derivative assets, at fair value	23,336	39,608
Other assets	34,119	33,767
<b>Total</b>	<b>\$ 11,132,122</b>	<b>\$ 9,995,328</b>

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Although we generally intend to hold our target assets as long-term investments, we may sell certain of our assets in order to manage our interest rate risk and liquidity needs, to meet other operating objectives and to adapt to market conditions. Our Agency RMBS are generally actively traded and thus, in most circumstances, readily liquid. However, certain of our assets, including MSR, are subject to longer trade timelines, and, as a result, market conditions could significantly and adversely affect the liquidity of our assets. Any illiquidity of our assets may make it difficult for us to sell such assets if the need or desire arises. Our ability to quickly sell certain assets, such as MSR may be limited by delays encountered while obtaining certain regulatory approvals required for such dispositions and may be further limited by delays due to the time period needed for negotiating transaction documents, conducting diligence, and complying with regulatory requirements regarding the transfer of such assets before settlement may occur. Consequently, even if we identify a buyer for our MSR, there is no assurance that we would be able to quickly sell such assets if the need or desire arises.

In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we previously recorded our assets. Assets that are illiquid are more difficult to finance, and to the extent that we use leverage to finance assets that become illiquid, we may lose that leverage or have it reduced. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. As a result, our ability to sell assets or vary our portfolio in response to changes in economic and other conditions may be limited by liquidity constraints, which could adversely affect our results of operations and financial condition.

We cannot predict the timing and impact of future sales of our assets, if any. Because many of our assets are financed with repurchase agreements, revolving credit facilities and term notes payable, a significant portion of the proceeds from sales of our assets (if any), prepayments and scheduled amortization are used to repay balances under these financing sources.

The following table provides the maturities of our repurchase agreements, revolving credit facilities, term notes payable and convertible senior notes as of June 30, 2022 and December 31, 2021:

(in thousands)	June 30, 2022	December 31, 2021
Within 30 days	\$ 2,373,262	\$ 1,771,027
30 to 59 days	976,012	1,807,544
60 to 89 days	2,040,318	1,981,056
90 to 119 days	1,066,245	1,249,435
120 to 364 days	1,531,610	1,265,638
One to three years	1,193,944	543,026
Three to five years	281,711	281,083
Total	<hr/> <hr/> \$ 9,463,102	<hr/> <hr/> \$ 8,898,809

For the three months ended June 30, 2022, our restricted and unrestricted cash balance decreased approximately \$336.5 million to \$1.1 billion at June 30, 2022. The cash movements can be summarized by the following:

- *Cash flows from operating activities.* For the three months ended June 30, 2022, operating activities increased our cash balances by approximately \$69.5 million, primarily driven by our financial results for the quarter.
- *Cash flows from investing activities.* For the three months ended June 30, 2022, investing activities decreased our cash balances by approximately \$674.2 million, primarily driven by net purchases of AFS securities and MSR, offset by an increase in due to counterparties, which was largely the result of unsettled RMBS purchases outstanding at June 30, 2022.
- *Cash flows from financing activities.* For the three months ended June 30, 2022, financing activities increased our cash balance by approximately \$268.1 million, primarily driven by an increase in repurchase agreement and revolving credit facility financing, offset by the payment of dividends.

## Inflation

Substantially all of our assets and liabilities are financial in nature. As a result, changes in interest rates and other factors impact our performance far more than does inflation, although inflation rates can often have a meaningful influence over the direction of interest rates. Our financial statements are prepared in accordance with U.S. GAAP and dividends are based upon net ordinary income and capital gains as calculated for tax purposes; in each case, our results of operations and reported assets, liabilities and equity are measured with reference to historical cost or fair value without considering inflation.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value while providing an opportunity to stockholders to realize attractive risk-adjusted total return through ownership of our capital stock. Although we do not seek to avoid risk completely, we believe that risk can be quantified from historical experience, and we seek to manage our risk levels in order to earn sufficient compensation to justify the risks we undertake and to maintain capital levels consistent with taking such risks.

To manage the risks to our portfolio, we employ portfolio-wide and asset-specific risk measurement and management processes in our daily operations. Risk management tools include software and services licensed or purchased from third parties as well as proprietary and third-party analytical tools and models. There can be no guarantee that these tools and methods will protect us from market risks.

**Interest Rate Risk**

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our assets and related financing obligations.

LIBOR and other indices which had been deemed “benchmarks” for various commercial and financial contracts have been the subject of recent national, international, and other regulatory guidance and proposals for reform, and it appears likely that LIBOR will be phased out or the methodology for determining LIBOR will be modified by June 2023. We currently have agreements that are indexed to LIBOR and are monitoring related reform proposals and evaluating the related risks; however, it is not possible to predict the effects of any of these developments, and any future initiatives to regulate, reform or change the manner of administration of LIBOR could result in adverse consequences to the rate of interest payable and receivable on, market value of and market liquidity for LIBOR-based financial instruments. See Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Market Conditions and Outlook - LIBOR transition” for further discussion.

Subject to maintaining our qualification as a REIT, we engage in a variety of interest rate risk management techniques that seek to mitigate the influence of interest rate changes on the values of our assets. We may enter into a variety of derivative and non-derivative instruments to economically hedge interest rate risk or “duration mismatch (or gap)” by adjusting the duration of our floating-rate borrowings into fixed-rate borrowings to more closely match the duration of our assets. This particularly applies to borrowing agreements with maturities or interest rate resets of less than six months. Typically, the interest receivable terms (*i.e.*, LIBOR, OIS or SOFR) of certain derivatives match the terms of the underlying debt, resulting in an effective conversion of the rate of the related borrowing agreement from floating to fixed. The objective is to manage the cash flows associated with current and anticipated interest payments on borrowings, as well as the ability to roll or refinance borrowings at the desired amount by adjusting the duration. To help manage the adverse impact of interest rate changes on the value of our portfolio as well as our cash flows, we may, at times, enter into various forward contracts, including short securities, TBAs, options, futures, swaps, caps, credit default swaps and total return swaps. In executing on our current interest rate risk management strategy, we have entered into TBAs, interest rate swap and swaption agreements, futures and options on futures. In addition, because MSR are negative duration assets, they provide a hedge to interest rate exposure on our Agency RMBS portfolio. In hedging interest rate risk, we seek to reduce the risk of losses on the value of our investments that may result from changes in interest rates in the broader markets, improve risk-adjusted returns and, where possible, obtain a favorable spread between the yield on our assets and the cost of our financing.

REIT income arising from “clearly identified” hedging transactions that are entered into to manage the risk of interest rate or price changes with respect to borrowings, including gain from the disposition of such hedging transactions, to the extent the hedging transactions hedge indebtedness incurred, or to be incurred, by the REIT to acquire or carry real estate assets, will not be treated as gross income for purposes of either the 75% or the 95% gross income tests. In general, for a hedging transaction to be “clearly identified,” (i) it must be identified as a hedging transaction before the end of the day on which it is acquired, originated, or entered into, and (ii) the items of risks being hedged must be identified “substantially contemporaneously” with entering into the hedging transaction (generally not more than 35 days after entering into the hedging transaction). We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT, although this determination depends on an analysis of the facts and circumstances concerning each hedging transaction. We also implement part of our hedging strategy through our TRSs, which are subject to U.S. federal, state and, if applicable, local income tax.

We treat our TBAs as qualifying assets for purposes of the 75% asset test, to the extent set forth in an opinion from Sidley Austin LLP substantially to the effect that, for purposes of the 75% asset test, our ownership of a TBA should be treated as ownership of the underlying Agency RMBS. We also treat income and gains from our TBAs as qualifying income for purposes of the 75% gross income test, to the extent set forth in an opinion from Sidley Austin LLP substantially to the effect that, for purposes of the 75% gross income test, any gain recognized by us in connection with the settlement of our TBAs should be treated as gain from the sale or disposition of the underlying Agency RMBS.

**Interest Rate Effect on Net Interest Income**

Our operating results depend in large part on differences between the income earned on our assets and our cost of borrowing and hedging activities. The costs associated with our borrowings are generally based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally will increase while the coupon interest earned on our existing portfolio of leveraged fixed-rate Agency RMBS will remain static. Both of these factors could result in a decline in our net interest spread and net interest margin. The inverse result may occur during a period of falling interest rates. The severity of any such decline or increase in our net interest spread and net interest margin would depend on our asset/liability composition at the time, as well as the magnitude and duration of the interest rate increase or decrease.

Our hedging techniques are partly based on assumed levels of prepayments of our target assets. If prepayments are slower or faster than assumed, the life of the investment will be longer or shorter, which could reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions. Hedging strategies involving the use of derivative securities are highly complex and may produce volatile returns.

The following analyses of risks are based on our experience, estimates, models and assumptions. The analysis is based on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of decisions may produce results that differ significantly from the estimates and assumptions used in our models.

We perform interest rate sensitivity analyses on various measures of our financial results and condition by examining how our assets, financing, and hedges will perform in various interest rate “shock” scenarios. Two of these measures are presented below in more detail. The first measure is change in annualized net interest income over the next 12 months, including interest spread from our interest rate swaps and float income from custodial accounts associated with our MSR. The second measure is change in value of financial position, including the value of our derivative assets and liabilities. All changes in value are measured as the change from the June 30, 2022 financial position. All projected changes in annualized net interest income are measured as the change from the projected annualized net interest income based off current performance returns.

Computation of the cash flows for the rate-sensitive assets underpinning change in annualized net interest income are based on assumptions related to, among other things, prepayment speeds, yield on future acquisitions, slope of the yield curve, and size of the portfolio (for example, the assumption for prepayment speeds for Agency RMBS, and MSR is that they do not change in response to changes in interest rates). Assumptions for the interest rate sensitive liabilities relate to, among other things, collateral requirements as a percentage of borrowings and amount/term of borrowing. These assumptions may not hold in practice; realized net interest income results may therefore be significantly different from the net interest income produced in scenario analyses. We also note that the uncertainty associated with the estimate of a change in net interest income is directly related to the size of interest rate move considered.

Computation of results for portfolio value involves a two-step process. The first is the use of models to project how the value of interest rate sensitive instruments will change in the scenarios considered. The second, and equally important, step is the improvement of the model projections based on application of our experience in assessing how current market and macroeconomic conditions will affect the prices of various interest rate sensitive instruments. Judgment is best applied to localized (less than 25 basis points, or bps) interest rate moves. The more an instantaneous interest rate move exceeds 25 bps, the greater the likelihood that accompanying market events are significant enough to warrant reconsideration of interest rate sensitivities. As with net interest income, the uncertainty associated with the estimate of change in portfolio value is therefore directly related to the size of interest rate move considered.

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The following interest rate sensitivity table displays the potential impact of instantaneous, parallel changes in interest rates of +/- 25 and +/- 50 bps on annualized net interest income and portfolio value, based on our interest sensitive financial instruments at June 30, 2022. The preceding discussion shows that the results for the 25 bps move scenarios are the best representation of our interest rate exposure, followed by those for the 50 bps move scenarios. This hierarchy reflects our localized approach to managing interest rate risk: monitoring rates and rebalancing our hedges on a day to day basis, where rate moves only rarely exceed 25 bps in either direction.

(dollars in thousands)	Changes in Interest Rates			
	-50 bps	-25 bps	+25 bps	+50 bps
<b>Change in annualized net interest income <sup>(1)</sup>:</b>	\$ 36,100	\$ 17,837	\$ (17,396)	\$ (34,778)
% change in net interest income <sup>(1)</sup>	20.6 %	10.2 %	(9.9)%	(19.8)%
<b>Change in value of financial position:</b>				
Available-for-sale securities	\$ 198,332	\$ 101,917	\$ (106,762)	\$ (217,555)
As a % of common equity	11.3 %	5.8 %	(6.1)%	(12.4)%
Mortgage servicing rights <sup>(2)</sup>	\$ (60,489)	\$ (25,758)	\$ 20,262	\$ 32,841
As a % of common equity <sup>(2)</sup>	(3.4)%	(1.5)%	1.1 %	1.9 %
Derivatives, net	\$ (200,002)	\$ (94,713)	\$ 83,919	\$ 158,016
As a % of common equity	(11.4)%	(5.4)%	4.8 %	9.0 %
Reverse repurchase agreements	\$ 33	\$ 16	\$ (16)	\$ (33)
As a % of common equity	— %	— %	— %	— %
Repurchase agreements	\$ (8,325)	\$ (4,162)	\$ 4,161	\$ 8,323
As a % of common equity	(0.5)%	(0.2)%	0.2 %	0.5 %
Revolving credit facilities	\$ (167)	\$ (83)	\$ 83	\$ 165
As a % of common equity	— %	— %	— %	— %
Term notes payable	\$ (143)	\$ (71)	\$ 71	\$ 142
As a % of common equity	— %	— %	— %	— %
Convertible senior notes	\$ (1,851)	\$ (917)	\$ 880	\$ 1,761
As a % of common equity	(0.1)%	(0.1)%	0.1 %	0.1 %
Total Net Assets	\$ (72,612)	\$ (23,771)	\$ 2,598	\$ (16,340)
As a % of total assets	(0.5)%	(0.2)%	— %	(0.1)%
As a % of common equity	(4.1)%	(1.4)%	0.1 %	(0.9)%

(1) Amounts include the effect of interest spread from our interest rate swaps and float income from custodial accounts associated with our MSR, but do not reflect any potential changes to dollar roll income associated with our TBA positions or U.S. Treasury futures income, which are accounted for as derivative instruments in accordance with U.S. GAAP.

(2) Includes the effect of unsettled MSR.

Certain assumptions have been made in connection with the calculation of the information set forth in the foregoing interest rate sensitivity table and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. The base interest rate scenario assumes interest rates at June 30, 2022. As discussed, the analysis utilizes assumptions and estimates based on our experience and judgment. Furthermore, future purchases and sales of assets could materially change our interest rate risk profile.

The information set forth in the interest rate sensitivity table above and all related disclosures constitutes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. While this table reflects the estimated impact of interest rate changes on the static portfolio, we actively manage our portfolio and continuously make adjustments to the size and composition of our asset and hedge portfolio. Actual results could differ significantly from those estimated in the foregoing interest rate sensitivity table.

#### **Prepayment Risk**

Prepayment risk is the risk that principal will be repaid at a different rate than anticipated. As we receive prepayments of principal on our Agency RMBS, premiums paid on such assets will be amortized against interest income. In general, an increase in prepayment rates will accelerate the amortization of purchase premiums, thereby reducing the interest income earned on the assets.

We believe that we will be able to reinvest proceeds from scheduled principal payments and prepayments at acceptable yields; however, no assurances can be given that, should significant prepayments occur, market conditions would be such that acceptable investments could be identified and the proceeds timely reinvested.

MSR are also subject to prepayment risk in that, generally, an increase in prepayment rates would result in a decline in value of the MSR.

#### **Market Risk**

*Market Value Risk.* Our AFS securities are reflected at their estimated fair value, with the difference between amortized cost net of allowance for credit losses and estimated fair value for all AFS securities except certain AFS securities for which we have elected the fair value option reflected in accumulated other comprehensive (loss) income. The estimated fair value of these securities fluctuates primarily due to changes in interest rates, market valuation of credit risks, and other factors. Generally, in a rising interest rate environment, we would expect the fair value of these securities to decrease; conversely, in a decreasing interest rate environment, we would expect the fair value of these securities to increase. As market volatility increases or liquidity decreases, the fair value of our assets may be adversely impacted.

Our MSR are reflected at their estimated fair value. The estimated fair value fluctuates primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, we would expect prepayments to decrease and the fair value of our MSR to increase. Conversely, in a decreasing interest rate environment, we would expect prepayments to increase and the fair value of our MSR to decrease.

*Real Estate Risk.* Residential property values are subject to volatility and may be affected adversely by a number of factors, including national, regional and local economic conditions; local real estate conditions (such as the supply of housing); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and natural disasters and other catastrophes. Decreases in property values reduce the value of the collateral for residential mortgage loans and the potential proceeds available to borrowers to repay the loans, which may increase costs to service the residential mortgage loans underlying our MSR.

#### **Liquidity Risk**

Our liquidity risk is principally associated with our financing of long-maturity assets with shorter-term borrowings in the form of repurchase agreements and borrowings under revolving credit facilities. Although the interest rate adjustments of these assets and liabilities fall within the guidelines established by our operating policies, maturities are not required to be, nor are they, matched.

Should the value of our assets pledged as collateral suddenly decrease, lender margin calls could increase, causing an adverse change in our liquidity position. Moreover, the portfolio construction of MSR, which generally have negative duration, combined with levered RMBS, which generally have positive duration, may in certain market scenarios lead to variation margin calls, which could negatively impact our excess cash position. Additionally, if one or more of our repurchase agreement or revolving credit facility counterparties chose not to provide ongoing funding, our ability to finance would decline or exist at possibly less advantageous terms. As such, we cannot provide assurance that we will always be able to roll over our repurchase agreements and revolving credit facilities. See Item 2, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources*” in this Quarterly Report on Form 10-Q for further information about our liquidity and capital resource management.

#### **Credit Risk**

We believe that our investment strategy will generally keep our risk of credit losses low to moderate. However, we retain the risk of potential credit losses on all of the loans underlying our non-Agency securities.

#### **Item 4. Controls and Procedures**

A review and evaluation was performed by our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that review and evaluation, the CEO and CFO have concluded that our current disclosure controls and procedures, as designed and implemented, were effective as of June 30, 2022. Although our CEO and CFO have determined our disclosure controls and procedures were effective at the end of the period covered by this Quarterly Report on Form 10-Q, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the company to disclose material information otherwise required to be set forth in the reports we submit under the Exchange Act.

There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be involved in various legal and regulatory matters that arise in the ordinary course of business. As previously disclosed, on July 15, 2020, we provided PRCM Advisers with a notice of termination of the Management Agreement for “cause” in accordance with Section 15(a) of the Management Agreement. We terminated the Management Agreement for “cause” on the basis of certain material breaches and certain events of gross negligence on the part of PRCM Advisers in the performance of its duties under the Management Agreement. On July 21, 2020, PRCM Advisers filed a complaint against us in the United States District Court for the Southern District of New York, or the Court. Subsequently, Pine River Domestic Management L.P. and Pine River Capital Management L.P. were added as plaintiffs to the matter. As amended, the complaint, or the Federal Complaint, alleges, among other things, the misappropriation of trade secrets in violation of both the Defend Trade Secrets Act and New York common law, breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition and business practices, unjust enrichment, conversion, and tortious interference with contract. The Federal Complaint seeks, among other things, an order enjoining us from making any use of or disclosing PRCM Advisers’ trade secret, proprietary, or confidential information; damages in an amount to be determined at a hearing and/or trial; disgorgement of our wrongfully obtained profits; and fees and costs incurred by the plaintiffs in pursuing the action. We have filed our answer to the Federal Complaint and made counterclaims against PRCM Advisers and Pine River Capital Management L.P. On May 5, 2022, the plaintiffs filed a motion for judgement on the pleadings, seeking judgement in their favor on all but one of our counterclaims and on one of our affirmative defenses. We have opposed the motion for judgement on the pleadings, which is pending with the Court. Discovery has commenced and is ongoing. Our board of directors believes the Federal Complaint is without merit and that we have fully complied with the terms of the Management Agreement.

### Item 1A. Risk Factors

Except as set forth below, there have been no material changes to the risk factors set forth under the heading “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2021, or the Form 10-K. The materialization of any risks and uncertainties identified in our Forward-Looking Statements contained in this Quarterly Report on Form 10-Q, together with those previously disclosed in the Form 10-K or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations, and cash flows. See Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements” in this Quarterly Report on Form 10-Q.

#### Risks Related to the Acquisition of RoundPoint Mortgage Servicing Corporation

##### *Completion of the proposed acquisition of RoundPoint Mortgage Servicing Corporation remains subject to conditions that we cannot control.*

Our proposed acquisition of RoundPoint Mortgage Servicing Corporation, or RoundPoint, is subject to various closing conditions, including the receipt of certain regulatory and GSE approvals. There are no assurances that all of the conditions necessary to consummate the acquisition of RoundPoint will be satisfied or that the conditions will be satisfied within the anticipated time frame.

##### *We may fail to realize all of the expected benefits of the proposed acquisition of RoundPoint or those benefits may take longer to realize than expected.*

The full benefits of the proposed acquisition of RoundPoint may not be realized as expected or may not be achieved within the anticipated time frame, or at all. Failure to achieve the anticipated benefits of the acquisition of RoundPoint could adversely affect our business, results of operations and financial condition.

In addition, we will be required to devote significant attention and resources prior to closing to prepare for the post-closing operation of the combined company. Following the closing, we will be required to devote significant attention and resources to successfully integrate RoundPoint’s operations into our existing structure. This integration process may disrupt our business and, if ineffective, would limit the anticipated benefits of the acquisition of RoundPoint.

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

- (a) None.
- (b) None.

(c) Our preferred share repurchase program allows for the repurchase of up to an aggregate of 5,000,000 shares of the company's preferred stock, which includes the 8.125% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, 7.625% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock and 7.25% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock. Preferred shares may be repurchased from time to time through privately negotiated transactions or open market transactions, pursuant to trading plans in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, or by any combination of such methods. The manner, price, number and timing of preferred share repurchases are subject to a variety of factors, including market conditions and applicable SEC rules. The preferred share repurchase program does not require the purchase of any minimum number of shares, and, subject to SEC rules, purchases may be commenced or suspended at any time without prior notice. The preferred share repurchase program does not have an expiration date. As of June 30, 2022, we had not yet repurchased any preferred shares.

Our common share repurchase program allows for the repurchase of up to an aggregate of 37,500,000 shares of the company's common stock. Common shares may be repurchased from time to time through privately negotiated transactions or open market transactions, pursuant to a trading plan in accordance with Rules 10b5-1 and 10b-18 under the Exchange Act or by any combination of such methods. The manner, price, number and timing of common share repurchases are subject to a variety of factors, including market conditions and applicable SEC rules. The common share repurchase program does not require the purchase of any minimum number of shares, and, subject to SEC rules, purchases may be commenced or suspended at any time without prior notice. The common share repurchase program does not have an expiration date. As of June 30, 2022, we had repurchased 12,174,300 common shares under the program for a total cost of \$201.5 million. We did not repurchase common shares during the three months ended June 30, 2022.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

**(a) Exhibits**

A list of exhibits to this Quarterly Report on Form 10-Q is set forth below.

Exhibit Number	Exhibit Description
2.1	<a href="#">Stock Purchase Agreement, dated as of August 2, 2022, by and among Matrix Financial Services Corporation, Freedom Mortgage Corporation, Inc., and RoundPoint Mortgage Servicing Corporation. (filed herewith)*</a>
3.1	<a href="#">Articles of Amendment and Restatement of Two Harbors Investment Corp. (incorporated by reference to Exhibit 99.1 to Annex B filed with Amendment No. 4 to the Registrant's Registration Statement on Form S-4 filed with the SEC on October 8, 2009).</a>
3.2	<a href="#">Articles of Amendment to the Articles of Amendment and Restatement of Two Harbors Investment Corp. (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 19, 2012).</a>
3.3	<a href="#">Articles of Amendment to the Articles of Amendment and Restatement of Two Harbors Investment Corp., effective as of 5:01 PM Eastern Time on November 1, 2017 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 2, 2017).</a>
3.4	<a href="#">Articles of Amendment to the Articles of Amendment and Restatement of Two Harbors Investment Corp., effective as of 5:02 PM Eastern Time on November 1, 2017 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on November 2, 2017).</a>
3.5	<a href="#">Articles of Amendment to the Articles of Amendment and Restatement of Two Harbors Investment Corp. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 23, 2020).</a>
3.6	<a href="#">Articles Supplementary to the Articles of Amendment to the Articles of Amendment and Restatement of Two Harbors Investment Corp. designating the shares of 8.125% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share (incorporated by reference to Exhibit 3.3 of the Registrant's Form 8-A filed with the SEC on March 13, 2017).</a>
3.7	<a href="#">Articles Supplementary to the Articles of Amendment to the Articles of Amendment and Restatement of Two Harbors Investment Corp. designating the shares of 7.625% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share (incorporated by reference to Exhibit 3.4 of the Registrant's Form 8-A filed with the SEC on July 17, 2017).</a>
3.8	<a href="#">Articles Supplementary to the Articles of Amendment to the Articles of Amendment and Restatement of Two Harbors Investment Corp. designating the shares of 7.25% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share (incorporated by reference to Exhibit 3.7 of the Registrant's Form 8-A filed with the SEC on November 22, 2017).</a>
3.9	<a href="#">Articles Supplementary to the Articles of Amendment to the Articles of Amendment and Restatement of Two Harbors Investment Corp. reclassifying and redesignating (i) all 3,000,000 authorized but unissued shares of 7.75% Series D Cumulative Redeemable Preferred Stock, \$0.01 par value per share, as shares of undesignated preferred stock, and (ii) all 8,000,000 authorized but unissued shares of 7.50% Series E Cumulative Redeemable Preferred Stock, \$0.01 par value per share, as shares of undesignated preferred stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on March 19, 2021).</a>
3.10	<a href="#">Amended and Restated Bylaws of Two Harbors Investment Corp. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on September 23, 2020).</a>
31.1	<a href="#">Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)</a>
31.2	<a href="#">Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)</a>
32.1	<a href="#">Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)</a>
32.2	<a href="#">Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)</a>
*	The annexes, schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company agrees to furnish supplementally a copy of such annexes, schedules and exhibits, or any section thereof, to the Securities and Exchange Commission upon request.

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Exhibit Number	Exhibit Description
101	Financial statements from the Quarterly Report on Form 10-Q of Two Harbors Investment Corp. for the three months ended June 30, 2022, filed with the SEC on August 4, 2022, formatted in Inline XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Comprehensive Loss, (iii) the Condensed Consolidated Statements of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements. (filed herewith)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). (filed herewith)

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 4, 2022

TWO HARBORS INVESTMENT CORP.

By: /s/ William Greenberg

William Greenberg  
President, Chief Executive Officer, and Chief Investment Officer  
(Principal Executive Officer)

Dated: August 4, 2022

By: /s/ Mary Riskey

Mary Riskey  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**EXECUTION VERSION**

**STOCK PURCHASE AGREEMENT**

dated as of August 2, 2022

by and among

MATRIX FINANCIAL SERVICES CORPORATION,

FREEDOM MORTGAGE CORPORATION,

and

ROUNDPOINT MORTGAGE SERVICING CORPORATION

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## **STOCK PURCHASE AGREEMENT**

This Stock Purchase Agreement (this “Agreement”) is entered into as of August 2, 2022 (the “Signing Date”), by and among MATRIX FINANCIAL SERVICES CORPORATION, an Arizona corporation (“Buyer”), FREEDOM MORTGAGE CORPORATION, a New Jersey corporation (“Seller”), and ROUNDPOINT MORTGAGE SERVICING CORPORATION, a Delaware corporation (the “Company”). Buyer, Seller and the Company are sometimes referred to collectively herein as the “Parties” and individually as a “Party.”

### **RECITALS**

WHEREAS, Seller owns all of the issued and outstanding Equity Securities of the Company (the “Shares”);

WHEREAS, at least one day prior to the Closing, Seller shall cause the Company to be converted to a limited liability company organized in the State of Delaware;

WHEREAS, (i) Seller, as the sole shareholder of the Company, has and (ii) the boards of directors of the Company and Seller have each authorized the Company’s or Seller’s, as applicable, execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation of the Transactions; and

WHEREAS, on the terms and subject to the conditions hereof, Buyer desires to purchase from Seller and Seller desires to sell to Buyer, all of the Shares.

### **AGREEMENT**

NOW, THEREFORE, in consideration of the premises and the representations, warranties, and covenants and agreements herein contained, the Parties agree as follows:

### **ARTICLE I**

#### **DEFINITIONS**

Section 1.1 Definitions. For purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

“Addendum Policy” has the meaning set forth in Section 8.6.

“Affiliate” means, with respect to any Person, any other Person controlling, controlled by or under common control with such Person. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlled” and “controlling” have meanings correlative thereto.

“Affiliate Loan/Advance Amount” means the aggregate amount of any Affiliate Loans/Advances.

**Affiliate Loans/Advances** means any and all Company Indebtedness or advances payable by the Company or the Company Sub to any Affiliates of the Company or the Company Sub or any officer, manager, partner or director of the Company, the Company Sub or any of their respective Affiliates.

**Affiliate Obligation** has the meaning set forth in Section 5.19.

**Agency** means FHA, VA, HUD, RD, Fannie Mae, Freddie Mac and Ginnie Mae.

**Agency Obligations** means, with respect to any Mortgage Loan and any Agency, (a) all outstanding repurchase requests made by an applicable Agency, (b) any obligation, cost, fee, claim or Liability (actual or contingent) of the Company or the Company Sub in respect of such Mortgage Loan to indemnify an applicable Agency for any losses incurred in respect of any Mortgage Loan (i) that was determined at the time of sale to have been ineligible for sale to such Agency due to a breach of one or more representations and warranties but accepted for purchase subject to any waiver and indemnity obligations or (ii) arising out of or relating to any error to Service such Mortgage Loan in accordance with Applicable Requirements, (c) any and all other obligations, costs, fees, claims or Liabilities described from time to time as being sold “with recourse” (or terms of similar meaning) and (d) any risk fee or similar arrangements or agreements.

**Agreement** has the meaning set forth in the preamble.

**Ancillary Agreements** means the other agreements and certificates contemplated by this Agreement to be entered into or delivered by the Parties or their respective Subsidiaries or Affiliates in connection with the Transactions, including the Sublease and the Subservicing Agreement.

**Applicable Law** means, with respect to any Person, each provision of any national, supranational, federal, state, local, municipal or foreign law, statute, code, ordinance, regulation, requirement, rule, treaty, interpretive guidance or Order promulgated, adopted, enacted, implemented, issued, passed, approved or otherwise put into effect by or under the authority of any Governmental Entity, including common law, that is binding upon or applicable to such Person.

**Applicable Requirements** means, with respect to a Mortgage Loan (a) the terms of the Mortgage and Mortgage Note, (b) all Applicable Laws and regulatory requirements, including, without limitation, those pertaining to processing, underwriting, origination, insuring, servicing, purchase, sale and filing of claims with respect to Mortgage Loans, and (c) all requirements of the Company or the Company Sub to an applicable warehouse lender, Agency or investor, including all applicable Servicing Agreements and the Agency handbooks and guides, including relating to the pooling, servicing, subservicing or enforcement of, or filing of claims in connection with, any Mortgage Loan at the relevant time.

**Approval** means, as the context requires, any consent, notice, permission or waiver of, or registration, declaration or other action or filing with or exemption by any Person, including any Governmental Entity or Agency.

**Boarded Loans** has the meaning set forth in Section 7.12(b).

**“Burdensome Condition”** means any obligation, restriction, requirement, limitation, divestiture, condition, hold separate, remedy, cost, Liability or other action imposed by a Governmental Entity that would reasonably be expected to be material (a) with respect to Company, to either the assets, liabilities, business, financial condition or results of operation of the Company or the Company Sub or (b) with respect to Buyer and its Affiliates, to any business of Buyer and its Affiliates.

**“Business”** means the mortgage servicing and subservicing business of the Company and Company Sub, including the billing, collection, escrow, loss mitigation and Servicing activities associated with single-family residential mortgage loans in all fifty states, the District of Columbia and the U.S. Virgin Islands, insurance brokerage, and any other business activities of the Company or Company Sub that are mutually agreed to in writing by the Parties prior to the Closing, but excluding the Divested Business.

**“Business Day”** means any day that is not a Saturday, Sunday or any other day on which banks are required or authorized by Applicable Law to be closed in New York, New York.

**“Business Employee”** means each individual employed by the Company or the Company Sub primarily in respect of the Business.

**“Buyer”** has the meaning set forth in the preamble.

**“Buyer Approvals and Filings”** has the meaning set forth in Section 6.3.

**“Buyer Fundamental Representations”** has the meaning set forth in Section 10.3(a).

**“Buyer Indemnitees”** means Buyer, the Company, the Company Sub, each of their respective Affiliates, and each of its and their respective directors, officers, employees, agents, equity holders, successors and assigns.

**“Buyer Material Adverse Effect”** has the meaning set forth in Section 6.3.

**“Buyer Breach Termination Fee”** means an amount equal to (a) one million dollars (\$1,000,000), *plus* (b) the Post-Termination Operating Costs, *plus* (c) to the extent the aggregate Earnings during the period commencing on October 1, 2022 and ending on the date of termination of this Agreement are less than zero dollars (\$0), the absolute value of the amount by which such aggregate Earnings are less than zero dollars (\$0), *minus* (d) to the extent the aggregate Earnings during the period commencing on October 1, 2022 and ending on the date of termination of this Agreement are greater than zero dollars (\$0), the amount by which such aggregate Earnings are greater than zero dollars (\$0), provided that such amount shall not exceed the amount of Post-Termination Operating Costs.

**“Buyer No-Fault Termination Fee”** means an amount equal to (a) the Post-Termination Operating Costs, *plus* (b) the absolute value of the amount by which the aggregate Earnings during the period commencing on October 1, 2022 and ending on the date of termination of this Agreement are less than zero dollars (\$0).

**“Buyer’s Proposed Allocation”** has the meaning set forth in Section 9.10.

**“Cap”** means an amount equal to fifteen percent (15%) of the Preliminary Purchase Price.

**“CARES Act”** means the Coronavirus Aid, Relief and Economic Security Act, Pub. L. 116-136.

**“Cash”** means cash and cash equivalents (including marketable securities, short-term investments, funds in time and demand deposits or similar accounts on hand or in financial institutions), net of outstanding uncleared checks or drafts, postdated checks and outgoing wire transfers, and in each case excluding Restricted Cash.

**“Change of Control Payments”** means any Liability of the Company or the Company Sub for severance, change of control payments, stay bonuses, retention bonuses, success bonuses and other bonuses, employee benefits and similar liabilities with respect to any of the foregoing, in each case that arises as a result of the Transactions (whether alone or together with any other event or events), except to the extent such amount was specifically taken into account in the Cutoff Date Statement and the Closing Statement.

**“Claim”** has the meaning set forth in Section 12.4(a).

**“Claim Notice”** has the meaning set forth in Section 12.4(a).

**“Closing”** has the meaning set forth in Section 3.1.

**“Closing Date”** has the meaning set forth in Section 3.1.

**“Closing Date Net Tax Amount”** means, with respect to a Person, the excess of the amount of such Person’s accrued Taxes which remain unpaid as of the Closing Date with respect to any Tax Return related to a Pre-Closing Tax Period (or any portion of the Closing Date Straddle Period ending on and including the Closing Date) with an original due date (including applicable extensions) after the Closing Date, over any estimated Tax payments made by such Person with respect to such Taxes; provided, that the Closing Date Net Tax Amount shall take into account the amount of any Transaction Deductions even if accrued after the Closing Date (but shall never be less than zero dollars (\$0)). For the avoidance of doubt, payroll taxes of the Company or the Company Sub the payment of which has been deferred pursuant to the CARES Act and which remain unpaid as of the Closing Date shall be included in the Closing Date Net Tax Amount.

**“Closing Date Straddle Period”** means any Tax period that begins on or before the Closing Date and ends after the Closing Date.

**“Closing Date Tangible Net Book Value”** means the Tangible Net Book Value as of 11:59 p.m. on the Closing Date.

**“Closing Statement”** has the meaning set forth in Section 2.2(c)(ii).

**“COBRA”** means the requirements of Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code and of any similar state law.

**“Code”** means the Internal Revenue Code of 1986, as amended, and any successor to such statute.

**“Company”** has the meaning set forth in the preamble; provided, that references to the Company with respect to periods following the Conversion shall mean Company LLC.

**“Company Approvals and Filings”** has the meaning set forth in Section 5.4.

**“Company Assets”** has the meaning set forth in Section 5.6.

**“Company Benefit Plan”** means each Employee Benefit Plan established or maintained in respect of any current or former Company Service Provider.

**“Company Data”** has the meaning set forth in Section 5.16(d).

**“Company Indebtedness”** means, the outstanding principal amount of, accrued and unpaid interest on, and other payment obligations (including any prepayment premiums payable in connection with repayment at the Closing, to the extent applicable) with respect to, any obligations of the Company or the Company Sub consisting of: (a) obligations relating to indebtedness for borrowed money, whether or not contingent, or indebtedness issued or incurred in substitution or exchange for indebtedness for borrowed money; (b) obligations evidenced by bonds, notes, debentures or similar instruments; (c) obligations, contingent or otherwise, under any performance bond, security bond, surety or similar bond or letter of credit (whether or not drawn or called), bank guarantees or similar facilities; (d) obligations in respect of capitalized leases; (e) obligations in respect of banker’s acceptances or letters of credit (whether or not drawn); (f) obligations for the deferred purchase price of property or services; (g) deferred gain relating to a sale leaseback; (h) indebtedness or obligations of the types referred to in the preceding clauses (a) through (g) above of any other Person secured by any Lien on any assets of the Company or the Company Sub (other than the Divested Business); (i) obligations in the nature of guarantees of obligations of the type described in clauses (a) through (h) above of any other Person; (j) obligations in respect of interest under any Interest Rate Protection Agreement, in each case with respect to clauses (a) through (h) above together with all accrued interest thereon and any applicable prepayment, breakage or other premiums, fees or penalties; and (k) amounts due under settlement agreements. For the avoidance of doubt, “Company Indebtedness” shall not include any amounts included as Transaction Expenses.

**“Company Insurance Agreements”** has the meaning set forth in Section 5.18.

**“Company Intellectual Property”** has the meaning set forth in Section 5.10(a).

**“Company LLC”** has the meaning set forth in Section 7.2.

**“Company Material Adverse Effect”** means any event, circumstance, change or effect that, individually or in the aggregate, has had a material adverse effect upon the Business or the assets, liabilities, financial condition or operating results of the Business, taken as a whole; provided, however, that no event, circumstance, change or effect to the extent resulting from the following shall be deemed to constitute a “Company Material Adverse Effect”: (a) changes after the Signing Date in the economy or financial or banking markets in which the Business operates; (b) any

outbreak or escalation of hostilities or act of terrorism or any declaration of war; (c) changes after the Signing Date in accounting principles or practices or Applicable Laws applicable to the Company; (d) flood, hurricane, earthquake or other natural disaster, epidemic, pandemic, disease outbreak (including COVID-19) or other public health emergency, or act of God; (e) the Divestiture or any other action required or permitted by this Agreement or any action taken (or omitted to be taken) with the written consent of or at the written request of Buyer; (f) events, circumstances, changes or effects to the extent expressly set forth in the disclosure schedules delivered by Seller to Buyer immediately prior to the execution of this Agreement, but only to the extent that the possibility of such events, circumstances, changes or effects to have a material adverse effect is readily apparent from or would be reasonably expected from the matters so disclosed; (g) the announcement, pendency or completion of the transactions contemplated by this Agreement, in each case as a result of the identity of Buyer; or (h) any failure to meet internal or published projections, estimates or forecasts of revenues, earnings or other measures of financial or operating performance for any period or the loss of any subservicing client of the Business; provided that, notwithstanding the foregoing, the underlying cause or causes of such failure of the Company or the Business to meet any internal or published projections, estimates or forecasts of revenues, earnings or other measures of financial or operating performance or retain such subservicing client may be taken into consideration in determining whether a Company Material Adverse Effect has occurred; provided, further, that any matter described in any of the foregoing clauses (a), (b), (c) and (d) shall be taken into account in determining whether a Company Material Adverse Effect has occurred or would reasonably be expected to occur to the extent such matter has or would reasonably be expected to have a disproportionate effect on the Company or the Business relative to other entities operating in the industry in which such the Company operates.

“Company Owned Intellectual Property” means all registered or unregistered IP Rights owned by the Company or the Company Sub and necessary to conduct the Business as currently conducted (excluding the Divested Assets).

“Company Returns” has the meaning set forth in Section 5.11(a).

“Company Releasor” has the meaning set forth in Section 13.16.

“Company Service Provider” means each Business Employee and each other natural person independent contractor who provides services primarily in respect of the Business.

“Company Sub” means RoundPoint Mortgage Solutions, LLC, a Delaware limited liability company and wholly-owned subsidiary of the Company.

“Competing Proposal” has the meaning set forth in Section 7.15(a).

“Confidentiality Agreement” means that certain Mutual Non-Disclosure Agreement, dated December 16, 2021, by and between Seller and Two Harbors Investment Corp., the ultimate parent company of Buyer.

“Continuing Employee” means each Business Employee who is employed by the Company or Company Sub as of the Closing.

“Conversion” has the meaning set forth in Section 7.2.

**“Contract”** means any oral or written contract, obligation, understanding, commitment, lease, license, bid, note, indenture, instrument or other agreement.

**“COVID-19”** means the ongoing SARS-CoV-2/COVID-19 pandemic.

**“Cutoff Date”** means the last calendar day of the month immediately preceding the Closing Date.

**“Cutoff Date Net Tax Amount”** means, with respect to a Person, the excess of the amount of such Person’s accrued Taxes which remain unpaid as of the Cutoff Date with respect to any Tax Return related to any Tax period ending on or before the Cutoff Date (or any portion of the Cutoff Date Straddle Period ending on and including the Cutoff Date) with an original due date (including applicable extensions) after the Cutoff Date, over any estimated Tax payments made by such Person with respect to such Taxes; provided, that the Cutoff Date Net Tax Amount shall take into account the amount of any Transaction Deductions even if accrued after the Cutoff Date (but shall never be less than zero). For the avoidance of doubt, payroll taxes of the Company the payment of which has been deferred pursuant to the CARES Act and which remain unpaid as of the Cutoff Date shall be included in the Cutoff Date Net Tax Amount.

**“Cutoff Date Straddle Period”** means any Tax period that begins on or before the Cutoff Date and ends after the Cutoff Date.

**“Cutoff Date Tangible Net Book Value”** means the Tangible Net Book Value as of 11:59 p.m. on the Cutoff Date.

**“Cutoff Date Statement”** has the meaning set forth in Section 2.2(c)(i).

**“Cyber Loss”** means any and all Losses arising in connection with actions or omissions occurring prior to the Closing Date that arise as a result of a Security Incident or any other matter covered by a customary technology errors and omissions and cyber security insurance policy, including (i) unauthorized acquisition of, access to, loss of, use, processing, sale or rental of private information or sensitive data, (ii) ransomware, phishing, DDoS or other attacks resulting in monetary, reputational or material loss, or (iii) other act or omission that adversely affects or compromises the security, integrity or confidentiality of private information, sensitive data or computer systems.

**“Cyber Policy”** has the meaning set forth in Section 8.6.

**“D&O Tail”** has the meaning set forth in Section 8.4(b).

**“Dallas Lease”** has the meaning set forth in Section 7.7.

**“Data Protection Requirements”** means (a) all Privacy Laws, (b) the Company’s Privacy and Security Policies, (c) any Data Protection Judicial Orders and (d) Privacy Contracts.

**“Data Protection Judicial Orders”** means any administrative, regulatory or judicial order, warrant, subpoena, regulatory opinion, or audit result issued by a Governmental Entity to the Company or the Company Sub relating to the Processing of Personal Data.

**“Dataroom”** means the virtual data rooms, hosted by Intralinks and having the names “Project Entelechy” and “Project Falcon” established by Seller in connection with the transactions contemplated by this Agreement.

**“De-Boarding Fees”** means all costs, fees, charges and expenses incurred in connection with the de-boarding of assets and the transfer of subservicing of Mortgage Loans.

**“Deductible”** means an amount equal to one half of one percent (0.5%) of the Preliminary Purchase Price.

**“Disputes”** has the meaning set forth in Section 13.16.

**“Divested Business”** has the meaning set forth in Section 7.1.

**“Divestiture”** has the meaning set forth in Section 7.1.

**“Divestiture Costs”** means any and all costs and expenses arising out of or relating to the Divestiture.

**“Earnings”** means, with respect to the Company, the net income of the Business (a) calculated in accordance with GAAP pursuant to the methodologies utilized in preparing the Company’s audited financial statements for the Most Recent Fiscal Year End and (b) determined in accordance with the Company’s historical approach to business segment reporting; provided, that for purposes of determining “Earnings”: (i) all revenue associated with servicing and subservicing shall be included, including all servicing and subservicing revenue from the RPX Platform (which shall not include any non-servicing revenue (including any gain on sale spread from the sale of the associated Mortgage Loans or MSRs) from the RPX Platform) as well as the actual De-Boarding Fees received in respect of the associated Mortgage Loans; (ii) the Platform Operating Costs shall be included; (iii) the Overhead Expenses shall be included; (iv) all revenues, costs and expenses related to the Divested Business shall be excluded and Earnings shall be determined on a pro forma basis as if the Divestiture had been consummated prior to the period of determination of such Earnings; and (v) all Transaction Expenses shall be excluded; provided, that, for the avoidance of doubt, in no event shall any amounts arising out of the same items be included in both Overhead Expenses and Platform Operating Costs. Set forth on Exhibit E is an illustrative pro forma calculation of Earnings.

**“Employee Benefit Plan”** means (a) any “employee benefit plan” within the meaning of Section 3(3) of ERISA, regardless whether subject to ERISA, (b) any bonus or incentive compensation, retention, vacation pay, cafeteria, fringe benefit, unemployment compensation, change in control or severance, employment, consulting or restrictive covenant plan, agreement, program, policy or arrangement and (c) any other employee benefit plan, agreement, program, policy or arrangement.

**“Equity Securities”** means (a) any and all shares, interests or equivalents in capital stock, equity securities or partnership, membership or other ownership interests (including limited liability company, partnership and joint venture interests, whether voting or nonvoting, and whether common or preferred) of a Person, (b) any security directly or indirectly convertible into or exchangeable or exercisable for any security described in clause (a) hereof or security

containing any profit participation features, (c) any stock appreciation rights, phantom stock rights or other similar rights and (d) any warrants, commitments, rights or options, directly or indirectly, to subscribe for or purchase any of the foregoing.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and any applicable rules and regulations thereunder, and any successor to such statute, rules or regulations.

“ERISA Affiliate” means each entity that is or was treated as a single employer with the Company for purposes of Section 414 of the Code.

“Excluded Clients” has the meaning set forth in Section 8.5(a)(ii).

“Excluded Client Fees” has the meaning set forth in Section 8.5(a)(ii).

“Excluded Liabilities” means the Divestiture Costs and any and all Liabilities related to or arising from (a) the Divested Business and the Divestiture, (b) any current or former employee of Seller or its Affiliates (including the Company and the Company Sub) who is not a Continuing Employee, (c) any Mortgage Loan origination activities and any obligations related to Mortgage Loans originated or sold by the Company or the Company Sub or any derivatives entered into in connection therewith, in each case, prior to the Closing, (d) MSRs owned by the Company or the Company Sub prior to the Closing, and any servicing advance obligations related to such MSRs and (e) any Servicing Agreement or other arrangement to the extent related to any client or customer of the Business prior to the Closing where such Servicing Agreement or other arrangement or any new arrangement that substantially replaces such Servicing Agreement or other arrangement will continue with Seller or any of its Affiliates following the Closing.

“Existing Counsel” has the meaning set forth in Section 13.17.

“Fannie Mae” shall mean the Federal National Mortgage Association, or any successor thereto.

“FHA” means the United States Federal Housing Administration, or any successor thereto.

“Filing” means, as the context requires, any notice to, or registration, declaration or filing with, any Person, including any Governmental Entity or Agency.

“Final Purchase Price” has the meaning set forth in Section 2.2(d)(iii).

“Financial Statements” has the meaning set forth in Section 5.5(a).

“Freddie Mac” shall mean the Federal Home Loan Mortgage Corporation, or any successor thereto.

“GAAP” means at any time, the generally accepted accounting principles in the United States at such time, applied on a consistent basis.

**“Ginnie Mae”** means the Government National Mortgage Association, or any successor thereto.

**“Governmental Entity”** means (a) any nation or government, including any federal, state, local or foreign municipality, principality, commonwealth, province, territory, county, district or other jurisdiction of any nature or other subdivision thereof or (b) any entity, arbitral body, instrumentality, department, Agency, commission, bureau, agency, body, authority, board, court, tribunal, official or officer, domestic or foreign, exercising executive, judicial, regulatory, administrative, judicial, police, military or taxing governmental functions.

**“Health Plan”** has the meaning set forth in Section 5.15(m).

**“Healthcare Reform Laws”** means the Patient Protection and Affordable Care Act, Pub. L. No. 111-148, the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, and the regulations and guidance issued thereunder.

**“HUD”** means the United States Department of Housing and Urban Development, or any successor thereto.

**“Indemnified Party”** has the meaning set forth in Section 12.4(b).

**“Indemnifying Party”** has the meaning set forth in Section 12.4(b).

**“Independent Accounting Firm”** means a nationally recognized accounting firm independent of each of Seller and Buyer, selected by the mutual agreement of the Parties or as appointed by accounting firms designated by each of the Parties, if the Parties cannot so mutually agree.

**“Interest Rate Protection Agreement”** means any interest rate swap agreement, interest rate cap agreement, interest collar agreement, interest rate hedging agreement, interest rate lock commitments or other similar agreement or arrangement to which the Company is a party.

**“Interim Period”** means the period commencing on October 1, 2022 and ending on the Closing Date.

**“Interim Period Adjustment”** means an amount equal to the aggregate Earnings of the Company during the Interim Period.

**“IP Rights”** means all right, title and interest in intellectual property, whether protected, created or arising under any Applicable Law, including: (a) inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, all patents, patent applications and patent disclosures, together with all reissuances, divisionals, continuations, continuations-in-part, provisionals, extensions and reexaminations thereof and patents issuing thereon; (b) all trademarks, service marks, trade dress, logos, trade names, “doing business as” names, corporate names, service names, brand names, social media handles, trade dress rights, trade styles, logos and other source or business identifiers, together with all common law rights and goodwill associated therewith, along with all applications, registrations, renewals and extensions thereof; (c) all copyrightable works, copyrights, mask works, database rights, design

rights and all published and unpublished works of authorship (whether or not copyrightable), whether or not registered or published, all applications, registrations, recordations and renewals in connection therewith, along with all extensions and renewals thereof; (d) all confidential and proprietary information, including trade secrets, know-how, customer and supplier lists and related information, pricing and cost information, business and marketing plans, research and development and all other confidential and proprietary financial, marketing and business data, technical data, specifications, designs, drawings, formulae, algorithms, procedures, techniques, research and development and methods; (e) Internet domain names; (f) Software; and (g) all other intellectual property rights arising from or relating to all recordings, graphs, drawings, reports, analyses and other writings, and other tangible embodiments of any of the foregoing, in any form whether or not specifically listed herein.

“IRS” has the meaning set forth in Section 5.11(e).

“IT Assets” means any and all computers, software, hardware, systems, servers, workstations, routers, hubs, switches, data communications lines and other information technology equipment used in the operation of the Business, and all associated documentation.

“Knowledge of Seller” means the actual knowledge of the individuals listed on Schedule 1.1(a), and the knowledge that each such Person would have obtained after reasonable inquiry as would be performed by a prudent individual serving in a similar position.

“Leased Real Property” means all leasehold or subleasehold estates and other rights to use or occupy any land, buildings, structures, improvements, fixtures or other interest in real property held by the Company or the Company Sub pursuant to a Lease.

“Leases” means all written leases, subleases, licenses, concessions and other agreements related to the use or occupancy of real property, including all amendments, extensions, renewals, guaranties, and other agreements with respect thereto.

“Liability” means any debt, liability, duty or obligation, whether known or unknown, absolute or contingent, asserted or unasserted, accrued or unaccrued, matured or unmatured, disputed or undisputed, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise, and whether or not the same is required to be accrued on the financial statements of such Person, including those arising under any Applicable Law, Applicable Requirement, Order or Contract.

“Lien” means any lien, mortgage, deed of trust, pledge, encumbrance, charge, security interest, adverse claim, preferential arrangement or restriction on the use, voting, transfer, receipt of income or other exercise of any attributes of ownership, other similar encumbrance of any kind, including any conditional sale or other title retention contract, community property interest, encroachment, easement, license, servitude, right of way, covenant or zoning restriction, any lease in the nature thereof and the filing of or agreement to give any financing statement under the Uniform Commercial Code or similar Applicable Law of any jurisdiction.

“Losses” means any and all damages, losses, charges, Liabilities, claims, demands, judgments, settlements, awards, interest, penalties, fees, Taxes, costs and expenses (including reasonable attorneys’, accountants’ and other experts’ fees and out-of-pocket disbursements);

provided, that “Losses” shall not include any punitive damages except to the extent awarded in connection with Third-Party Claims.

“Material Contract” has the meaning set forth in Section 5.12(a).

“Minimum Servicing Fee” means for any given month an amount payable by Buyer to Company equal to: (a)(i) the Subservicing Threshold applicable as of the first day of such month, less (ii) the number of Boarded Loans as of the first day of such month, times (b) \$7.00.

“Minimum Servicing Fee Credit” means for any given month an amount equal to: (a)(i) the number of Boarded Loans as of the first day of such month, less (ii) the Subservicing Threshold applicable as of the first day of such month, times (b) \$7.00.

“Minimum Staffing Ratio” means, as of the applicable determination period, the minimum number of Servicing Personnel required to ensure the quotient of (a) the number of Boarded Loans, divided by (b) the number of Servicing Personnel, does not exceed one thousand five hundred (1,500).

“Mortgage” means the mortgages, deeds of trust, security deeds and other instruments creating a Lien on real property with respect to the Mortgage Loans.

“Mortgage Loan” means any residential mortgage loan that is evidencing the indebtedness of the Mortgagor under a Mortgage Note and any home equity conversion loan, construction loan, co-op loan or other mortgage loan product.

“Mortgage Note” means a written obligation to pay a sum of money at a stated interest rate, which rate may be fixed or adjustable during the term of obligation, executed by a Mortgagor and secured by a Mortgage.

“Mortgagor” means the obligor(s) on a Mortgage Note.

“Most Recent Balance Sheet” means the balance sheet contained within the Most Recent Financial Statements.

“Most Recent Financial Statements” has the meaning set forth in Section 5.5(a).

“Most Recent Fiscal Month End” has the meaning set forth in Section 5.5(a).

“Most Recent Fiscal Year End” has the meaning set forth in Section 5.5(a).

“MSRs” means the contractual right to receive servicing fees and other remuneration in exchange for performing loan servicing functions on behalf of Agencies and investors in Mortgage Loans.

“Negative Adjustment Amount” has the meaning set forth in Section 2.2(d)(iii).

“Notified Party” has the meaning set forth in Section 9.7(a).

**“Order”** means any order, award, decision, determination, injunction, judgment, ruling, decree, charge, writ, subpoena, verdict or other binding obligation entered, issued, made or rendered by any Governmental Entity or arbitrator.

**“Ordinary Course of Business”** means the ordinary course of business of the Business consistent with the Company’s prior customs and practices.

**“Organizational Documents”** means (a) any certificate or articles of incorporation, bylaws, certificate or articles of formation, operating agreement or partnership agreement, (b) any documents comparable to those described in clause (a) as may be applicable pursuant to any Applicable Law and (c) any amendment or modification to any of the foregoing.

**“Outside Date”** has the meaning set forth in Section 11.1(e).

**“Overhead Expenses”** means, for each month, (a) fifty percent (50%) of the rent, utilities and other property maintenance charges incurred in connection with the Leased Real Property located in Fort Mill, South Carolina, plus the lesser of (b)(i) wages, salaries, commissions, bonuses, benefits and other compensation due and payable to the individuals in the positions identified on Exhibit E as “Corporate Positions” (including any replacements, additions or adjustments reasonably necessary for the Business to satisfy its obligations under this Agreement) and the general technology and corporate overhead expenses incurred by the Company that are allocated to the Business (after taking into account the size, usage and general operations of the Business relative to the Divested Business and determined in accordance with the Company’s approach to business segment reporting for the Most Recent Fiscal Year End) and (ii) one million dollars (\$1,000,000).

**“Parties”** or **“Party”** has the meaning set forth in the preamble.

**“Payoff Letters”** has the meaning set forth in Section 3.3(a)(xi).

**“Permit”** means any license, franchise, permit, certificate, approval, variance, waiver, exemption, certificate of occupancy, Order, consent or other similar authorization issued by any Governmental Entity or Agency.

**“Permitted Lien”** means: any (a) Liens for Taxes not yet due or payable or for Taxes that the Company or the Company Sub is contesting in good faith through appropriate proceedings in a timely manner, in each case for which adequate reserves have been established in accordance with GAAP; (b) Liens of landlords, carriers, warehousemen, workmen, repairmen, mechanics, materialmen and similar Liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money, in each case for which adequate reserves have been established in accordance with GAAP; (c) encumbrances, encroachments, restrictions, easements, covenants, reservations, rights of way or other similar matters of title to the Leased Real Property; and (d) zoning ordinances, restrictions, prohibitions and other requirements imposed by any Governmental Entity, none of which interfere with the conduct of the Business.

**“Person”** means any individual, partnership, corporation, limited liability company, association, joint stock company, trust, joint venture, unincorporated organization, other business entity or Governmental Entity.

**“Personal Data”** means all data or information that constitutes personal data, personal information, personally identifiable information, personally identifiable financial information or any equivalent term under Data Protection Requirement, provided that such data or information is owned by or in the possession, custody or control of, the Company or the Company Sub.

**“Platform Operating Costs”** means all out-of-pocket costs, expenses and charges incurred by the Company or its Affiliates solely to the extent necessary to maintain and operate the Business, including: (a) wages, salaries, commissions, bonuses, benefits and other compensation due and payable to the individuals in the positions identified on Exhibit E as “Subservicing Channel Positions” including any replacements, additions or adjustments reasonably necessary for the Business to satisfy its obligations under this Agreement; (b) costs, fees, and expenses incurred to service Mortgage Loans in conformance with Agency standards; (c) costs, fees and expenses incurred to the extent necessary to perform under vendor Contracts of the Business; (d) costs, fees and expenses incurred to maintain all state licenses and permits for the origination and servicing of Mortgage Loans; and (e) costs, fees and expenses incurred to maintain all servicer ratings with any existing rating agency. Items (a)–(e) above are represented in the pro-forma calculation on Exhibit E as Servicing Platform Operating Expenses.

**“Positive Adjustment Amount”** has the meaning set forth in Section 2.2(d)(iii).

**“Post-Termination Operating Costs”** means the amount by which the Earnings of the Business during the period commencing on the date of termination of this Agreement and ending on the four (4) month anniversary of such date are less than zero dollars (\$0); provided, that, such amount shall not include (a) any costs, fees, charges or expenses (i) to the extent expensed during the period commencing on October 1, 2022 and ending on the date of termination of this Agreement and included in the calculation of Platform Maintenance Costs, (ii) incurred in connection with the negotiation, execution, consummation or de-boarding of assets under the Subservicing Agreement or (iii) incurred in connection with the termination of any employee, including severance, termination, benefit continuation or similar costs and expenses or (b) any termination fees or similar expenses or charges related to Contracts of the Business that have not been previously approved by Buyer in writing, including any Lease.

**“Pre-Closing Period”** has the meaning set forth in Section 7.3.

**“Pre-Closing Tax Period”** has the meaning set forth in Section 9.3.

**“Preliminary Purchase Price”** has the meaning set forth in Section 2.2(a).

**“Premium Amount”** means an amount equal to ten million five hundred thousand dollars (\$10,500,000).

**“Privacy and Security Policies”** has the meaning set forth in Section 5.16(a).

**“Privacy Contracts”** means all Contracts between the Company or the Company Sub and any other party relating to the Processing of Personal Data.

**“Privacy Laws”** means (a) any Applicable Laws that relate to the Processing of Personal Data, including, without limitation, the Gramm-Leach-Bliley Act and (b) any Applicable Laws that relate to privacy, data security or data breach notification.

**“Privacy Statement”** has the meaning set forth in Section 5.16(a).

**“Proceeding”** means any action, claim, audit, lawsuit, litigation, investigation, subpoena, civil investigative demand or arbitration (in each case, whether civil, criminal or administrative) pending by or before any Governmental Entity or arbitrator.

**“Process or Processing”** shall mean any access, collection, use, processing, storage, sharing, distribution, transfer, disclosure, security, destruction or disposal of data (whether in electronic or any other form or medium).

**“Prohibited Transaction”** has the meaning set forth in Section 406 of ERISA or Section 4975 of the Code.

**“Purchase Price”** has the meaning set forth in Section 2.2(b).

**“Purchase Price Adjustments”** has the meaning set forth in Section 2.2(b).

**“RD”** means Rural Development, an agency of the United States Department of Agriculture and any successor thereto and including the Farmers Home Administration, as the predecessor in interest to Rural Development.

**“Recourse”** means any arrangement pursuant to which the Company or the Company Sub bears the risk of any part of the ultimate credit losses incurred in connection with a default under or foreclosure of a Mortgage Loan.

**“Representatives”** means, with respect to any Person, the directors, officers, employees, agents and advisors of such Person and its Affiliates.

**“Required Approvals and Filings”** means the Approvals or Filings that are required in order for the Company to operate the Business after the Closing Date or to allow the Parties to consummate the Transactions, and that are set forth on Schedule 1.1(b).

**“Restricted Cash”** means any cash and cash equivalents that are not freely usable by the Company due to any restrictions, limitations or Taxes on the use or distribution imposed by Applicable Law, Applicable Requirements or Contract, including escrow restrictions and restrictions on dividends and repatriations.

**“Restricted Period”** has the meaning set forth in Section 8.5(a)(i).

**“RPX Platform”** means the platform, including associated technology, contracts and employees set forth on Schedule 1.1(c), through which the Company acts as principal in an intermediary role between multiple sellers and multiple buyers of MSRs; provided that the “RPX Platform” does not include personnel involved in the boarding and de-boarding of loans and such personnel shall be considered Business Employees.

**“Securitization Transaction”** means any transaction, however named, involving the Company and any one or more purchasers and/or investors (other than an Agency) which provides for the monetization of a discrete pool or pools of (a) Mortgage Loans and/or Mortgage Notes or (b) collateral certificates through debt securities or ownership interests issued by a securitization issuer or securitization entity supported or backed by Mortgage Loans and/or Mortgage Notes or collateral certificates that in the case of each of clause (a) and (b) have been transferred to a securitization issuer by the Company.

**“Security Incident”** means any actual or reasonably suspected instance of unlawful, unauthorized or accidental (i) Processing of Personal Data, or (ii) access to the IT Assets owned, leased or licensed by the Company or the Company Sub or Personal Data Processed by or on behalf of the Company.

**“Seller”** has the meaning set forth in the preamble.

**“Seller Approvals and Filings”** has the meaning set forth in Section 4.4.

**“Seller Breach Termination Fee”** means an amount equal to (a) one million dollars (\$1,000,000), *plus* (b) to the extent the aggregate Earnings during the period commencing on October 1, 2022 and ending on the date of termination of this Agreement are greater than zero dollars (\$0), the amount by which such aggregate Earnings are greater than zero dollars (\$0) *plus* (c) the aggregate amount of De-Boarding Fees incurred by Buyer in connection with the transfer of Mortgage Loans to the Company; provided, however, the aggregate amount due pursuant to this clause (c) shall in no event exceed Eight Million Dollars (\$8,000,000).

**“Seller Fundamental Representations”** has the meaning set forth in Section 10.2(a).

**“Seller Indemnifiable Losses”** has the meaning set forth in Section 12.2(c).

**“Seller Indemnitees”** means Seller, its Affiliates, and its and their respective directors, officers, employees, agents, equity holders, successors and assigns.

**“Seller Material Adverse Effect”** has the meaning set forth in Section 4.4.

**“Seller Releasor”** has the meaning set forth in Section 13.16.

**“Seller No-Fault Termination Fee”** means the amount, if any, by which the aggregate Earnings during the period commencing on October 1, 2022 and ending on the date of termination of this Agreement are greater than zero dollars (\$0).

**“Service”** or **“Servicing”** means the responsibilities with respect to servicing of Mortgage Loans under Applicable Requirements, whether performed as a servicer, subservicer or interim servicer.

**“Servicing Agreement”** means any Contract pursuant to which the Company or the Company Sub is obligated to service, subservice or interim service any Mortgage Loan on behalf of a third party, including any Agency. For the avoidance of doubt, the Servicing Agreement with respect to any Agency includes any servicing agreement, mortgage selling and servicing contract,

purchase document, guaranty agreement, or similar agreement with an Agency, including any and all waivers, amendments, addendums, or consents relating thereto, and any ancillary or related documents.

“Servicing Personnel” means individuals in the positions identified on Exhibit E as “Subservicing Channel Positions.”

“Servicing Transfer Schedule” has the meaning set forth in Section 7.12(b).

“Shares” has the meaning set forth in the recitals.

“Signing Date” has the meaning set forth in the preamble.

“Software” means any and all (a) computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source code or object code; (b) descriptions, flow charts and other work product used to design, plan, organize and develop any of the foregoing, screens, user interfaces, report formats, firmware, development tools, templates, menus, buttons and icons; (c) all documentation, including user manuals and other training documentation related to any of the foregoing; and (d) all databases, data feeds, and data warehouses, in each case necessary to conduct the Business as currently conducted (excluding the Divested Assets).

“Specified Courts” has the meaning set forth in Section 13.8(b).

“Sublease” has the meaning set forth in Section 7.11.

“Subserviced Loan” means any Mortgage Loan that the Company or the Company Sub subservices (or previously subserviced) for another party pursuant to a Servicing Agreement.

“Subservicing Agreement” has the meaning set forth in Section 7.12(a).

“Subservicing Clients” means all Persons for whom the Company or the Company Sub has subserviced Mortgage Loans (other than Seller and its Subsidiaries).

“Subservicing Customers” means all Mortgagors or other borrowers with respect to Mortgage Loans for which the Company or the Company Sub has acted as a servicer.

“Subservicing Threshold” means the aggregate minimum number of Mortgage Loans to be transferred to Company by any designated date pursuant to Schedule 7.12.

“Subsidiary” means, with respect to any Person, any corporation, partnership, limited liability company, limited liability partnership, joint venture, or other legal entity of which the specified Person (either alone and/or through and/or together with any other Subsidiary) owns, directly or indirectly, more than fifty percent (50%) of the voting stock or other equity or partnership interests the holders of which are generally entitled to vote for the election of the board of directors or other governing body, of such legal entity or of which the specified Person controls the management.

“Supplement” has the meaning set forth in Section 7.16.

“Tangible Net Book Value” means, with respect to the Company, (a) the total consolidated assets of the Company (excluding any deferred Tax assets or other Tax assets), *minus* (b) any intangible assets (including goodwill), *minus* (c) total liabilities, including any Company Indebtedness (excluding any deferred Tax liabilities or other Tax liabilities), *minus* (d) (i) in connection with the determination of the Cutoff Date Tangible Net Book Value, the Cutoff Date Net Tax Amount and (ii) in connection with the determination of the Closing Date Tangible Net Book Value, the Closing Date Net Tax Amount, in each case of clauses (a) – (d), determined in accordance with GAAP in accordance with the methodologies utilized in preparing the Company’s audited financial statements for the Most Recent Fiscal Year End. The Parties agree that, in connection with the calculation of Tangible Net Book Value, (x) all amounts set forth in clauses (a) through (d) shall exclude the Divested Business and all assets and liabilities related thereto and shall be determined on a pro forma basis as if the Divestiture had been consummated prior to the date of determination and (y) Tangible Net Book Value shall be otherwise calculated as if the Transactions had not occurred.

“Tangible Net Book Value Difference” means an amount equal to (i) the Closing Date Tangible Net Book Value *minus* (ii) the Cutoff Date Tangible Net Book Value.

“Tax” or “Taxes” means (a) any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, gain, use, municipal, ad valorem, goods and services, transfer, registration, value added, escheat, unclaimed property, alternative or add-on minimum, estimated, or other tax of any kind whatsoever and (b) any deficiency assessments, interest, penalty, fine or addition in respect of any item described in clause (a) (and any interest in respect of such deficiency assessments, additions to tax, penalties and fines), whether disputed or not.

“Tax Matter” has the meaning set forth in Section 9.7(a).

“Tax Return” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any claim for refund or amendment thereof.

“Third-Party Claim” has the meaning set forth in Section 12.5(a).

“Transaction Approvals and Filings” means, collectively, the Company Approvals and Filings, Seller Approvals and Filings and Buyer Approvals and Filings (regardless of whether or not such Approvals and Filings constitute “Required Approvals and Filings” within the meaning of this Agreement).

“Transaction Deductions” means any deduction allowed for income Tax purposes attributable to (a) Transaction Expenses or other similar expenses paid on or prior to the Closing Date or included in the computation of the Closing Date Tangible Net Book Value and (b) any fees, expenses and interest (including amounts treated as interest for income Tax purposes) payable

by the Company that were incurred in connection with the Company Indebtedness (or payment thereof) or included in the computation of the Closing Date Tangible Net Book Value.

“Transaction Expenses” means any and all (a) legal, accounting, tax, financial advisory and other professional or transaction-related costs, fees and expenses incurred, and to the extent borne or reimbursable, by the Company or the Company Sub in connection with this Agreement or in investigating, pursuing or completing the Transactions (including any amounts owed to any consultants, auditors, accountants, attorneys, brokers or investment bankers), (b) Change of Control Payments, (c) the employer portion of any payroll Taxes, if any, required to be paid by Buyer (on behalf of the Company or the Company Sub) or by the Company with respect to the amounts described in clauses (a) and (b), if any and (d) premiums and other costs for the D&O Tail and the Cyber Policy, if any.

“Transactions” means the transactions contemplated by this Agreement and the Ancillary Agreements.

“Transfer Taxes” has the meaning set forth in Section 9.5.

“Underlying Documents” means each operative document, Contract or obligation executed in connection with a Servicing Agreement or that is otherwise required to service a Mortgage Loan that is binding upon the Company or the Company Sub, including indentures, custodial agreements, credit agreements, administrative agreements and agreements with any insurer, imaged document vendor, outsourced call center or other ancillary service in respect thereof.

“VA” means the United States Department of Veterans’ Affairs or any successor thereto.

“WARN Act” means, collectively, the Worker Adjustment and Retraining Notification Act and any and all comparable state or local Applicable Laws requiring advance notice of mass layoffs and/or plant closings.

## **ARTICLE II**

### **PURCHASE AND SALE OF SHARES**

Section 2.1    Purchase and Sale of Shares. In accordance with the terms and upon the conditions of this Agreement, at the Closing, Seller shall sell, transfer, deliver, assign and convey to Buyer, and Buyer shall purchase and accept from Seller, free and clear of all Liens, all right, title and interest in and to the Shares.

Section 2.2    Purchase Price.

(a)    Preliminary Purchase Price. In consideration for the sale and transfer of the Shares, and subject to the terms and conditions of this Agreement, Buyer shall pay to Seller an aggregate amount equal to (i) the Premium Amount, *plus* (ii) the Cutoff Date Tangible Net Book Value, *minus* (iii) the Affiliate Loan/Advance Amount (collectively, the “Preliminary Purchase Price”).

(b) Purchase Price Adjustments. Following the Closing Date, in accordance with this Section 2.2, the Preliminary Purchase Price will be increased or decreased, as applicable, to reflect each of the following (which may be a positive or negative value or zero): (i) the Tangible Net Book Value Difference; and (ii) the Interim Period Adjustment (clauses (i) and (ii), collectively, the “Purchase Price Adjustments”). If the Tangible Net Book Value Difference is a positive value, the Preliminary Purchase Price shall be increased by such amount and, if the Tangible Net Book Value Difference is a negative value, the Preliminary Purchase Price shall be decreased by such amount. If the Interim Period Adjustment is a positive value, the Preliminary Purchase Price shall be decreased by such amount and, if the Interim Period Adjustment is a negative value, the Preliminary Purchase Price shall be increased by such amount (the Preliminary Purchase Price, as adjusted by the Purchase Price Adjustments and as may be finally determined pursuant to Section 2.2(d), the “Purchase Price”).

(c) Cutoff Date Statement and Closing Statement.

(i) No later than fifteen (15) days following the Cutoff Date, Seller shall prepare and deliver to Buyer a statement (the “Cutoff Date Statement”) setting forth Seller’s good faith estimate of (A) the Cutoff Date Tangible Net Book Value, (B) the Transaction Expenses, (C) the Excluded Client Fees, (D) the Affiliate Loan/Advance Amount and (E) the resulting calculation of the Preliminary Purchase Price, in each case including reasonable supporting information and documentation to compute and verify the information set forth in the Cutoff Date Statement. The Cutoff Date Statement shall be prepared in the format of Exhibit A. For purposes of facilitating Buyer’s review of the Cutoff Date Statement, Seller and the Company shall, and Seller shall cause the Company to, cooperate with and make available to Buyer and its Representatives all information, records, data, working papers (including those working papers of its accountants), supporting schedules, calculations and other documentation, and shall permit reasonable access (upon reasonable prior notice) during normal business hours to Seller’s and the Company’s facilities, personnel and accountants, as may be reasonably required in connection with the review of the items set forth in the Cutoff Date Statement.

(ii) Within sixty (60) days after the Closing Date, Buyer shall prepare and deliver to Seller a statement (the “Closing Statement”) setting forth Buyer’s good faith calculation of (A) the Closing Date Tangible Net Book Value, (B) the Transaction Expenses, (C) the Excluded Client Fees, (D) the Affiliate Loan/Advance Amount, (E) the Tangible Net Book Value Difference, (F) the Interim Period Adjustment and (G) the resulting calculation of the Purchase Price, in each case including reasonable supporting information and documentation to compute and verify the information set forth in the Closing Statement. The Closing Statement shall be prepared in the format of Exhibit B. Within thirty (30) days following receipt by Seller of the Closing Statement, Seller shall either inform the Buyer in writing that the Closing Statement is acceptable or deliver a detailed written statement to Buyer (the “Objections Statement”) describing: (x) which items on the Closing Statement it disputes, (y) the basis for Seller’s disagreement with the calculation of such items and (z) Seller’s proposed dollar amount for each item in dispute. If Seller fails to deliver an Objections Statement within such thirty (30) day period, then the Closing Statement shall become final and binding on the Parties. Seller shall be deemed to have agreed with all amounts and items contained or reflected in the Closing Statement

to the extent such amounts or items are not disputed in the Objections Statement. If Seller delivers an Objections Statement within such thirty (30) day period, then Seller and Buyer shall negotiate in good faith to resolve any such disputes, and any determination resulting from such good faith negotiation shall be final, conclusive and binding on the Parties.

(d) Dispute Resolution; Payment of Positive Adjustment Amount or Negative Adjustment Amount.

(i) If Seller and Buyer are unable to resolve any disputes within thirty (30) days after Seller delivers the Objections Statement, then either Seller or Buyer may submit the resolution of such remaining disputed items to the Independent Accounting Firm. Promptly after the engagement of the Independent Accounting Firm, Buyer and Seller will provide the Independent Accounting Firm with a copy of all documentation relating to the Closing Statement in dispute. The Independent Accounting Firm will have the authority to request in writing such additional written submissions from Buyer or Seller as it deems appropriate; provided that a copy of any such submission will be provided to the other Party at the same time as it is provided to the Independent Accounting Firm. Buyer and Seller will not make (and will instruct their Affiliates to refrain from making) any additional submission to the Independent Accounting Firm except pursuant to such written request by the Independent Accounting Firm. Buyer and Seller will not communicate (and will instruct their Affiliates to refrain from communicating) with the Independent Accounting Firm without providing the other Party a reasonable opportunity to participate in such communication with the Independent Accounting Firm (other than with respect to written submissions in response to the written request of the Independent Accounting Firm). Buyer and Seller shall instruct the Independent Accounting Firm to only opine as to the matters in dispute as presented by the Parties, and shall not assign a value greater than the greatest value for such item claimed by Buyer or Seller or smaller than the smallest value for such item claimed by Buyer or Seller. Buyer and Seller shall use commercially reasonable efforts to cause the Independent Accounting Firm to render its determination on the matter within forty-five (45) days of its engagement by Buyer and Seller. Such determination shall be conclusive, non-appealable, final and binding upon the Parties. The fees and disbursements of the Independent Accounting Firm shall be allocated between Seller, on the one hand, and Buyer, on the other hand, in proportion to the aggregate amount of disputed items so submitted to the Independent Accounting Firm that is unsuccessfully disputed by each such Party as finally determined by the Independent Accounting Firm.

(ii) Access. For purposes of complying with the terms set forth in this Section 2.2, Buyer shall cooperate with and make available to Seller all information, records, data, working papers (including those working papers of its accountants), supporting schedules, calculations and other documentation, in each case, to the extent such materials are in Buyer's possession, that are reasonably necessary for Seller's review of the items set forth in the Closing Statement.

(iii) Payment of Positive Adjustment Amount or Negative Adjustment Amount. The amount, if any, by which the Purchase Price, as finally determined pursuant to this Section 2.2(d) (the "Final Purchase Price"), exceeds the Preliminary Purchase Price

shall be deemed the “Positive Adjustment Amount.” Buyer shall pay the Positive Adjustment Amount to Seller, by wire transfer of immediately available funds into an account designated by Seller, within five (5) Business Days from the date on which the Final Purchase Price is determined. The amount, if any, by which the Final Purchase Price is less than the Preliminary Purchase Price shall be deemed the “Negative Adjustment Amount”. Seller shall pay the Negative Adjustment Amount to Buyer, by wire transfer of immediately available funds into an account designated by Buyer, within five (5) Business Days from the date on which the Final Purchase Price is determined; provided, that Buyer may elect, at its sole discretion, to deduct and offset all or any portion of the Negative Adjustment Amount against any payments owing to Seller pursuant to this Agreement, or recover directly from Seller.

(e) Any payment to be made pursuant to this Section 2.2 shall be treated by all Parties for Tax purposes as an adjustment to the Purchase Price, unless otherwise required under Applicable Law.

Section 2.3 Withholding. Buyer, Seller and the Company shall be entitled to deduct and withhold (or cause to be deducted and withheld) from any amount otherwise payable with respect to this Agreement such amounts as may be required to be deducted and withheld therefrom or with respect thereto under the Code or other applicable U.S. state or local or non-U.S. Tax law; provided that with respect to any such withholding (other than any withholding in respect of “wages”), Buyer, Seller and the Company, as applicable, shall take commercially reasonable efforts to provide the applicable payee with written notice (including a calculation of any amounts intended to be deducted or withheld) at least five (5) Business Days prior to making any such deduction or withholding. To the extent Buyer or Seller, as applicable, determines any such deduction or withholding is required, it shall work in good faith with the applicable payee to reduce or eliminate any such amounts. To the extent that amounts are so deducted or withheld and timely remitted to the appropriate Governmental Entity, such amounts shall be treated for all purposes of this Agreement as having been paid to the Person in respect of which such deduction and withholding was made.

## ARTICLE III

### CLOSING

Section 3.1 Closing. The closing of the Transactions (the “Closing”) shall take place at 10:00 a.m. Eastern Time at the offices of Cadwalader, Wickersham & Taft LLP, 200 Liberty Street, New York, NY 10281 or remotely via electronic exchange of documents and signatures, on the last Business Day of the month following the date on which the conditions to the obligations of Parties set forth in Article X below have been satisfied or waived (excluding any conditions that are, by their nature, intended to be satisfied or waived at the Closing, but subject to the satisfaction or waiver of such conditions at the Closing) (such time and date, the “Closing Date”); provided, that in no event shall the Closing occur before January 1, 2023. The Closing will be deemed completed as of 11:59 p.m. Eastern Time on the Closing Date; provided, that if the last Business Day of the calendar month in which Closing takes place is not the last day of that calendar month, the Closing shall be deemed to take place as of 11:59 p.m. Eastern Time on the last calendar day of that month.

All Transactions to occur on and as of the Closing Date shall be deemed to have occurred simultaneously at the Closing.

Section 3.2 Payments. At the Closing, Buyer shall pay, or cause to be paid:

(a) to Seller, an amount in cash equal to (i) the Preliminary Purchase Price, *minus* (ii) any Transaction Expenses not yet paid by the Company, *minus* (iii) the Excluded Client Fees, if any, by means of a wire transfer of immediately available funds to an account designated by Seller in writing at least three (3) Business Days prior to the Closing Date; and

(b) to the applicable obligees thereof, the Transaction Expenses in accordance with the Payoff Letters; provided, however, that (i) with respect to any Transaction Expenses paid pursuant to this Section 3.2(b) and ultimately payable to a Continuing Employee, Buyer shall pay such amount to the applicable Person (net of withholding) through Buyer's payroll system and (ii) any Taxes withheld from any payment under Section 2.3 shall be remitted by Buyer to the applicable Governmental Entity in a proper and timely manner.

Section 3.3 Deliverables.

(a) At or prior to the Closing, Seller shall deliver or caused to be delivered to Buyer each of the following:

(i) a certificate, dated as of the Closing Date and signed by a duly authorized officer of Seller, certifying that each of the conditions set forth in Section 10.2(a) and (c) have been satisfied;

(ii) a certificate, duly executed by the secretary or assistant secretary of Seller, certifying as to an attached accurate and complete copies of the Organizational Documents of the Company and the Company Sub;

(iii) good standing certificates of the Company and the Company Sub from the Secretary of State of Delaware, each dated no earlier than thirty (30) days prior to the Closing Date;

(iv) the Sublease, duly executed by Seller;

(v) the Subservicing Agreement, duly executed by Seller;

(vi) stock certificates evidencing the Shares, free and clear of all Liens, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank;

(vii) stock certificates, or proof of book entry if uncertificated, evidencing the Company's ownership of the Equity Securities of the Company Sub, free and clear of all Liens;

(viii) duly executed resignations, effective as of the Closing, of such directors and officers of the Company and the Company Sub who are identified in writing by Buyer at least three (3) Business Days prior to the Closing Date;

(ix) a properly completed IRS Form W-9 executed by the Seller;

(x) evidence of termination of the Affiliate Loans/Advances in form and substance reasonably acceptable to Buyer; and

(xi) at least three (3) Business Days prior to the Closing Date, full and final invoices or payoff letters or other reasonable support for all unpaid Transaction Expenses (the “Payoff Letters”) to be paid on behalf of Seller, the Company or the Company Sub, as applicable, in form and substance reasonably acceptable to Buyer, pursuant to which each payee shall acknowledge that payment of the amount set forth therein will satisfy and discharge in full all payment and other obligations owed to such payee by Seller, the Company or the Company Sub.

(b) At or prior to the Closing, Buyer shall deliver or caused to be delivered to Seller each of the following:

(i) a certificate, dated as of the Closing Date and signed by a duly authorized officer of Buyer, certifying that each of the conditions set forth in Section 10.3(a) have been satisfied;

(ii) the Sublease, duly executed by Buyer;

(iii) the Subservicing Agreement, duly executed by the Company;

(iv) a certificate, duly executed by the secretary or assistant secretary of Buyer, certifying as to an attached accurate and complete copies of the Organizational Documents of Buyer; and

(v) good standing certificate of the Buyer from the Secretary of State of Arizona, dated no earlier than thirty (30) days prior to the Closing Date.

## **ARTICLE IV**

### **REPRESENTATIONS AND WARRANTIES REGARDING SELLER**

Except as disclosed on the disclosure schedules delivered by Seller to Buyer immediately prior to the execution of this Agreement, Seller represents and warrants to Buyer as follows:

#### **Section 4.1 Due Organization, Qualification and Authority.**

(a) Seller is duly organized, validly existing, and in good standing under the laws of the State of New Jersey. Seller is duly authorized to conduct its business and is in good standing under the Applicable Laws of each jurisdiction where such qualification is required except where the failure to be so qualified would not reasonably be expected to be, individually or

in the aggregate, material to the Company or the Company Sub. Seller is not in default under or in violation of any provision of its Organizational Documents.

(b) Seller has full power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is or will be a party, to perform its obligations hereunder and thereunder and to consummate the Transactions. Assuming the due authorization, execution and delivery of this Agreement by the other Parties, this Agreement constitutes the valid and legally binding obligation of Seller, enforceable against it in accordance with the terms of this Agreement, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors generally and by the availability of equitable remedies. Assuming the due authorization, execution and delivery by the other parties thereto, upon the execution and delivery by Seller of each Ancillary Agreement to which it is a party, such Ancillary Agreement will constitute the valid and legally binding obligation of Seller, enforceable against it in accordance with the terms of such Ancillary Agreement, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors generally and by the availability of equitable remedies. The execution, delivery and performance of this Agreement and each Ancillary Agreement to which Seller is a party, and the performance by Seller of its obligations hereunder and thereunder, have been duly authorized by all requisite corporate action.

Section 4.2 Shares. Seller owns the Shares beneficially and of record, free and clear of all Liens, other than applicable federal and state securities law transfer restrictions.

Section 4.3 Conflicts; Non-contravention. Assuming the Seller Approvals and Filings are obtained or made, as applicable, the execution, delivery and performance by Seller of this Agreement and the Transactions do not and will not violate or conflict with (a) any provision of Seller's Organizational Documents, (b) any material Contract by which Seller is bound or is a party or by which its assets are bound or (c) any Applicable Laws or material Permits to which Seller or its property is subject.

Section 4.4 Seller Approvals. The board of directors of Seller has approved the execution and delivery of this Agreement and the Ancillary Agreements, the performance of all obligations hereunder and thereunder and the consummation of the Transactions by Seller and the Company. Except as set forth on Schedule 4.4 (collectively, the "Seller Approvals and Filings"), the execution and delivery of this Agreement and the consummation of the Transactions by Seller are not subject to any Approval or Filing with respect to Seller other than such Approvals and Filings, the failure of which to obtain or make has not had and would not reasonably be expected to have a material adverse effect on the ability of Seller to perform its obligations under this Agreement (a "Seller Material Adverse Effect").

Section 4.5 Legal Proceedings. There are no Proceedings pending or, to the Knowledge of Seller, threatened against or by Seller or its officers, directors or employees that seek to prevent or

enjoin the Transactions or that would reasonably be expected to have a Seller Material Adverse Effect.

Section 4.6 Brokers' Fees. Seller does not have any Liability to pay any fees or commissions to any broker, finder or agent with respect to the Transactions.

Section 4.7 S Corporation Status. Seller has made a valid election under Section 1362 of the Code to be treated as an "S corporation" and has at all times since January 1, 1991 qualified as an "S corporation" for purposes of Subchapter S of the Code.

## ARTICLE V

### **REPRESENTATIONS AND WARRANTIES REGARDING THE COMPANY**

Except as disclosed on the disclosure schedules delivered by Seller to Buyer immediately prior to the execution of this Agreement, Seller and the Company represent and warrant to Buyer as follows:

Section 5.1 Due Organization, Qualification and Authority.

(a) The Company is duly organized, validly existing, and in good standing under the laws of the State of Delaware. The Company is duly authorized to conduct its business and is in good standing under the Applicable Laws of each jurisdiction where foreign qualification is required except where the failure to be so qualified would not reasonably be expected to be, individually or in the aggregate, material to the Company or the Company Sub. The Company has the full corporate power and authority necessary to carry on the Business and to own, lease and use the properties owned, leased and used by it. The Company has delivered to Buyer correct and complete copies of the Organizational Documents of the Company and any minute books and ownership record books for the Company, each of which is correct and complete in all respects. The Company is not in default under or in violation of any provision of its Organizational Documents.

(b) The Company has full power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is or will be a party, to perform its obligations hereunder and thereunder and to consummate the Transactions. Assuming the due authorization, execution and delivery of this Agreement by the other Parties, this Agreement constitutes the valid and legally binding obligation of the Company, enforceable against it in accordance with the terms of this Agreement, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors generally and by the availability of equitable remedies. Assuming the due authorization, execution and delivery by the other parties thereto, upon the execution and delivery by the Company of each Ancillary Agreement to which it is a party, such Ancillary Agreement will constitute the valid and legally binding obligation of Seller, enforceable against it in accordance with the terms of such Ancillary Agreement, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors generally and by the availability of equitable remedies. The execution, delivery and performance of this Agreement and each Ancillary Agreement to which

the Company is a party, and the performance by the Company of its obligations hereunder and thereunder, have been duly authorized by all requisite corporate action.

Section 5.2 Capitalization and Subsidiaries.

(a) The Shares represent one hundred percent (100%) of the issued and outstanding Equity Securities of the Company. All of the Shares are owned beneficially and of record by Seller, free and clear of all Liens, other than applicable federal and state securities law transfer restrictions. All of the Shares (i) have been duly authorized, are validly issued, fully paid and non-assessable, (ii) have been issued without violation of any preemptive rights (whether statutory, contractual or otherwise), right of first refusal, subscription rights or other right to purchase, (iii) were offered and sold in compliance with all applicable securities and other laws and (iv) are held free and clear of all Liens, other than applicable federal and state securities law transfer restrictions. Other than the Shares, there are no other Equity Securities in the Company or outstanding securities convertible or exchangeable into Equity Securities of the Company, and there are no options, warrants, purchase rights, subscription rights, preemptive rights, conversion rights, exchange rights, calls, puts, rights of first refusal or other Contracts that could require the Company to issue, sell or otherwise cause to become outstanding or to acquire, repurchase or redeem any Equity Securities in the Company. There are no outstanding or authorized equity appreciation, phantom equity, profit participation or similar rights or similar interests having equity features with respect to the Company. There are no voting trusts, proxies or other Contracts with respect to the voting of the Equity Securities of the Company.

(b) Other than the Company Sub, the Company has no Subsidiaries and does not own, directly or indirectly, any Equity Securities or equity-related interests in any other Person. The Company Sub is duly organized, validly existing, and in good standing under the laws of the State of Delaware. The Company Sub is duly authorized to conduct its business and is in good standing under the Applicable Laws of each jurisdiction where foreign qualification is required except where the failure to be so qualified would not reasonably be expected to be, individually or in the aggregate, material to the Company or the Company Sub. The Company Sub has the full limited liability company power and authority necessary to carry on the Business and to own, lease and use the properties owned, leased and used by it. The Company has delivered to Buyer correct and complete copies of the Organizational Documents of the Company Sub and any minute books and ownership record books for the Company Sub, each of which is correct and complete in all material respects. The Company Sub is not in default under or in violation of any provision of its Organizational Documents. All of the Equity Securities of the Company Sub are owned beneficially and of record by the Company, free and clear of all Liens, other than applicable federal and state securities law transfer restrictions. All of the Equity Securities of the Company Sub (i) have been duly authorized, are validly issued, fully paid and non-assessable, (ii) have been issued without violation of any preemptive rights (whether statutory, contractual or otherwise), right of first refusal, subscription rights or other right to purchase, (iii) were offered and sold in compliance with all applicable securities and other laws and (iv) are held free and clear of all Liens, other than applicable federal and state securities law transfer restrictions. Other than the Equity Securities of the Company Sub owned by the Company, there are no other Equity Securities in the Company Sub or outstanding securities convertible or exchangeable into Equity Securities of the Company Sub, and there are no options, warrants, purchase rights, subscription rights, preemptive rights, conversion rights, exchange rights, calls, puts, rights of first refusal or other Contracts that

could require the Company Sub to issue, sell or otherwise cause to become outstanding or to acquire, repurchase or redeem any Equity Securities in the Company Sub. There are no outstanding or authorized equity appreciation, phantom equity, profit participation or similar rights or similar interests having equity features with respect to the Company Sub. There are no voting trusts, proxies or other Contracts with respect to the voting of the Equity Securities of the Company Sub.

**Section 5.3    Conflicts; Non-contravention.** Assuming the Company Approvals and Filings are obtained or made, as applicable, the execution, delivery and performance by the Company of this Agreement and the Transactions by the Company do not and will not (a) violate or conflict with or result in a breach of, or constitute (with or without due notice or lapse of time or both) a default or acceleration under (i) any provision of the Company's Organizational Documents, (ii) any Material Contract or (iii) any Applicable Laws or material Permits to which the Company or its property is subject or (b) create any right of a counterparty to any Material Contract to cancel, modify or terminate such Material Contract.

**Section 5.4    Company Approvals.** The board of directors of the Company has approved the execution and delivery of this Agreement and the Ancillary Agreements, the performance of all obligations hereunder and thereunder and the consummation of the Transactions by the Company and the Company Sub. Except as set forth on Schedule 5.4 (collectively, the "Company Approvals and Filings"), the execution and delivery of this Agreement and the consummation of the Transactions by the Company, are not subject to any other material Approval or Filing with respect to the Company or the Company Sub.

**Section 5.5    Financial Information.**

(a) Set forth on Schedule 5.5(a) are correct and complete copies of the following financial statements of the Company (collectively, the "Financial Statements"):  
(1) audited balance sheets, statements of income, shareholders' equity, and cash flows as of and for the fiscal years ended December 31, 2020 and 2021 (the "Most Recent Fiscal Year End"); and  
(2) unaudited balance sheets, statements of income, changes in shareholders' equity, and cash flows (the "Most Recent Financial Statements") as of and for the six (6) month period ended June 30, 2022 (the "Most Recent Fiscal Month End"). The Financial Statements are correct and complete, consistent with the books and records of the Company (which are in turn correct and complete in all material respects), have been prepared in accordance with GAAP, and present fairly the financial condition, results of operation, changes in equity and cash flow of the Company as of and for their respective dates and for the periods then ending; provided, however, that the Most Recent Financial Statements are subject to normal, recurring year-end adjustments (none of which are material individually or in the aggregate) and the absence of footnotes (if any). Any amounts designated on the Financial Statements as a reserve established for loan losses, litigation or any other purpose have been accrued in accordance with GAAP.

(b) The books and records of the Company accurately and fairly reflect, in reasonable detail, the transactions in and dispositions of the assets of the Business. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that, with respect to the Business: (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation

of financial statements in conformity with the methodologies and assumptions used in the preparation of the Financial Statements in accordance with GAAP; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(c) Except as set forth on Schedule 5.5(c), the Company does not have any Company Indebtedness. The Company has not incurred any Company Indebtedness pursuant to the CARES Act (including the Payroll Protection Program).

(d) Seller has provided a list of the accounts payable for purchases of goods and services of the Company and the Company Sub (i) for the Most Recent Fiscal Year End and (ii) for the Most Recent Fiscal Month End, a copy of which is set forth on Schedule 5.5(d), which list was prepared in the Ordinary Course of Business.

**Section 5.6 Assets.** Schedule 5.6 sets forth a correct and complete list of all tangible properties and assets owned or leased by the Company and the Company Sub used in the operation of the Business and reported on the Company's balance sheet in accordance with GAAP, including all IT Assets (the "Company Assets"). The Company has good and marketable title to, or a valid leasehold interest or license in, the Company Assets necessary to conduct the Business as currently conducted (excluding the Divested Assets), located on its premises or shown on the Most Recent Balance Sheet or acquired after the date thereof (other than assets disposed of in the Ordinary Course of Business), in each case, free and clear of all Liens, except for Permitted Liens. The Company Assets as of the Closing, together with the rights and services under the Ancillary Agreements and assuming all Company Approvals and Filings and Permits have been, or are, obtained or transferred, and assuming all of the Continuing Employees continue their employment with the Business on the Closing Date, will constitute all assets, rights, and employees used in or necessary to conduct the Business as currently conducted and as contemplated to be conducted.

**Section 5.7 Mortgage Servicing Business.**

(a) Licenses. Each of the Company and Company Sub maintain the applicable (i) Mortgage Loan origination licenses set forth on Schedule 5.7(a)(i), (ii) Mortgage Loan servicing and debt collection licenses set forth on Schedule 5.7(a)(ii) and (iii) insurance broker licenses set forth on Schedule 5.7(a)(iii) which licenses are, in each case, in full force and effect. With respect to each such license, neither the Company nor the Company Sub has received (i) any notice of any cancellation or suspension of, or material limitation on, such licenses or (ii) any notice indicating that any event has occurred or any circumstance exists that could reasonably be expected to result in the Company or the Company Sub not maintaining such licenses. Neither the Company nor the Company Sub is aware of (A) any breach of the terms of applicable laws, rules, regulations, or agreements with the applicable licensing authority, that could reasonably be anticipated to lead to a cancellation, suspension, or material limitation of such licenses or (B) any event having occurred or circumstance existing that could materially impact the ability of the Company and the Company Sub to maintain such licenses following consummation of the transactions contemplated hereby.

(b) Servicing Practices.

(i) Neither the Company nor the Company Sub has received notice from any Agency or investor that it intends to terminate any Servicing Agreement or require the repurchase of a Mortgage Loan other than transfers in the Ordinary Course of Business.

(ii) Each Subserviced Loan is and has been serviced in accordance with all Applicable Requirements.

(iii) Each servicing advance made by or on behalf of the Company or the Company Sub in connection with the Subserviced Loans was made, and is reimbursable in full in accordance with, the applicable Servicing Agreement and is a valid and subsisting amount owing to the Company and neither the Company nor the Company Sub has received any notice from any Agency, investor, Mortgage Loan owner, client, insurer or other party in which such Agency, investor, Mortgage Loan owner, client, insurer or other party disputes or denies any claim by or on behalf of the Company or the Company Sub for reimbursement in connection with a servicing advance.

(iv) The Company and the Company Sub are, and since January 1, 2018 have been, in compliance in all material respects with the Company's and the Company Sub's servicing or, as applicable, subservicing or master servicing, obligations under all Applicable Requirements, including with respect to (A) the collection and application of mortgagor payments, (B) the servicing of adjustable rate Mortgage Loans, (C) the assessment and collection of late charges, (D) the maintenance of escrow accounts, (E) the collection of delinquent or defaulted accounts, including loss mitigation, foreclosure and real-estate owned management, (F) the maintenance of required insurance, including force-placed insurance policies, (G) the communication regarding processing of loan payoffs, (H) the release and satisfaction of mortgages, (I) the assessment and calculation of fees and (J) the maintenance of Liens.

(v) Since January 1, 2018, there has been no servicer event of default, servicer termination event, portfolio trigger or other default or breach, or written allegations thereof, by the Company or the Company Sub, in each case as servicer or subservicer under any Servicing Agreement.

(vi) Except as to payments which are past due under the applicable Mortgage Notes, all escrow balances required by the Mortgage Loans and received by the Company for the account of the Mortgagors are on deposit in the applicable escrow accounts. The escrow accounts contain the amounts shown in the Company's books and records, as of the date of such books and records, which amounts represent all monies received from the applicable borrowers or advanced by the Company or the Company Sub on behalf of the applicable borrowers, *less* amounts remitted by or on behalf of the Company or the Company Sub, as required by the Applicable Requirements. Where Applicable Requirements require the payment of interest on amounts in the escrow accounts, all such interest has been either properly paid or credited to the applicable Mortgagors escrow account.

(vii) All representations and warranties made by the Company or its predecessors to any Agency in connection with any Subserviced Loans were true and correct as of the date made.

(c) MSRs. Neither the Company nor the Company Sub will own any MSRs as of the Closing Date.

(d) No Recourse; No Repurchase. With respect to the Company and the Company Sub, there are no (i) outstanding Agency Obligations, (ii) requests or demands pursuant to any Servicing Agreement to provide an indemnity or make whole payment or (iii) outstanding Recourse obligations relating to the Servicing Agreements.

(e) Loan Level Litigation. Except as set forth on Schedule 5.7(e) (which shall be updated by Seller and delivered to Buyer within thirty (30) days prior to each of the Cutoff Date and the Closing Date), there are no Proceedings or Orders applicable to any Mortgage Loans (including any Subserviced Loans) or MSRs with respect to which any Liability of the Company or the Company Sub is reasonably foreseeable.

(f) Risk Management Instruments. Since January 1, 2018, each Interest Rate Protection Agreement was entered into (i) in accordance with all Applicable Requirements and (ii) with counterparties believed to be financially responsible at the time.

(g) No Securitization Transactions. Neither the Company nor the Company Sub manages or facilitates, and has not managed or facilitated, any Securitization Transactions.

(h) No Unsolicited Communications. Except as set forth on Schedule 5.7(h), the Company and the Company Sub have at all times complied in all material respects with the Telephone Consumer Protection Act, state anti-spam and telephony laws, and all other Applicable Laws governing marketing, promotion, and the transmission of unsolicited communications.

#### Section 5.8 Absence of Changes.

(a) From the date of the Most Recent Fiscal Year End until the Signing Date, the Company has operated the Business in the Ordinary Course of Business, and no Company Material Adverse Effect has occurred.

(b) Except as otherwise set forth in Schedule 5.8(b), since the Most Recent Fiscal Year End there have not been any actions or events that would have required Buyer's consent pursuant to Section 7.3(b)(i), (e), (i), (k) or (l) had such action or event occurred after the Signing Date.

Section 5.9 Undisclosed Liabilities. The Company does not have any Liability, except for Liabilities that (a) are accrued or reserved against in the Most Recent Financial Statements and

have not been paid or discharged prior to the Signing Date, (b) are Transaction Expenses, (c) constitute Excluded Liabilities or (d) are set forth on Schedule 5.9.

**Section 5.10 Intangible Assets; Intellectual Property.**

(a) Schedule 5.10(a)(i) sets forth a correct and complete list of (i) all licensed Company Intellectual Property and all Software (other than such items described in clauses (b) and (c) in the definition thereof), (ii) all registered copyrights, trademarks and patents owned by the Company or the Company Sub and (iii) all other components of Company Owned Intellectual Property. Excluding open-source and commercially available off-the-shelf Software, the Company or the Company Sub is the sole and exclusive owner of, or has all rights necessary to use, all of the IP Rights used or owned by the Company or the Company Sub (the “Company Intellectual Property”) free and clear of any Lien (other than Permitted Liens). Except as set forth on Schedule 5.10(a)(ii), since January 1, 2018, the Company has not used any “doing business as” name.

(b) Since January 1, 2018, no Proceeding has been filed against the Company or the Company Sub, and neither the Company nor the Company Sub has received notice of (i) any communication challenging the validity or enforceability of any registered Company Owned Intellectual Property or (ii) a claim against it that the conduct of the Business by the Company or the Company Sub infringes, misappropriates or otherwise violates any IP Right of a third party (including any claim that the Company or the Company Sub must license or refrain from using any IP Rights of any third party).

(c) To the Knowledge of Seller, the conduct of the Business as currently conducted and as contemplated to be conducted does not violate, infringe or misappropriate and, since January 1, 2018, the conduct of the Business has not violated, infringed or misappropriated, the IP Rights of any other Person.

(d) To the Knowledge of Seller, no Person has violated, infringed or misappropriated any of the Company Owned Intellectual Property. Since January 1, 2018, the Company has not filed any Proceeding or sent any notice of a violation, infringement or misappropriation by another Person of the Company’s or the Company Sub’s rights to the Company Owned Intellectual Property.

(e) All of the Company Owned Intellectual Property is valid, subsisting, and enforceable. All registration, maintenance, and renewal fees required to be paid and due as of the Closing, in connection with such Company Owned Intellectual Property have been paid, and all necessary documents and certificates due as of the Closing have been filed with the relevant Governmental Entities for the purposes of registering, perfecting, prosecuting and maintaining the foregoing.

(f) All use of third-party Software by the Company for its intended use complies with Applicable Law. Neither the Company nor the Company Sub has used open-source software in such a way that grants, or purports to grant, to any third party, any rights to any Company Owned Intellectual Property.

(g) Each Person who has participated in the authorship, conception, creation, reduction to practice or development of any material Company Owned Intellectual Property has (i) executed and delivered to the Company a valid and enforceable Contract providing for the non-disclosure by such Person of all trade secrets and know-how of the Company and (ii) executed and delivered to the Company a valid and enforceable Contract providing for the assignment by such Person (by way of a present grant of assignment) to the Company of all of such Person's right, title and interest in and to such Company Owned Intellectual Property, or such Company Owned Intellectual Property is owned by the Company by operation of law. To the Knowledge of Seller, no Person is in breach of or default under any such Contract.

(h) The Company owns, leases or licenses all IT Assets that are used in or necessary to conduct the Business in all material respects in the manner in which the Company currently conducts the Business. Since January 1, 2018, there has been no material failure or other material substandard performance of any of such IT Assets which has caused any disruption to the Company or the Company Sub. The Company has taken commercially reasonable actions to protect the integrity and security of the IT Assets necessary to conduct the Business as currently conducted (excluding the Divested Assets) and the information and data of the Company and the Company Sub stored thereon from unauthorized use, access or modification by third parties. The IT Assets used in the operation of the Business operate and perform in all material respects in accordance with their specifications and documentation and as required for the conduct of the Business in the manner in which the Company currently conducts the Business.

#### Section 5.11 Tax Matters.

(a) Each Tax Return required to be filed or furnished by the Company and the Company Sub on or before the Closing Date (the “Company Returns”) (i) has been timely filed or furnished (including any extensions) and (ii) is true, complete and correct in all material respects and has been prepared in compliance with any Applicable Laws. All Taxes imposed on the Company and the Company Sub, whether or not shown on the Company Returns, due on or before the Closing Date have been paid. All Taxes that the Company or the Company Sub has been required to collect or withhold on or before the Closing Date have been duly collected or withheld and, to the extent due and payable, have been duly paid to the proper Governmental Entity. The Company and the Company Sub have complied with all information reporting and backup withholding requirements, including the maintenance of required records with respect thereto, in connection with amounts paid to any employee, independent contractor, creditor, or any other Person. Neither the Company nor the Company Sub has claimed a Tax refund or received a Tax credit to which it is not entitled. The Company and the Company Sub have adequately accrued all Taxes not yet due and payable in accordance with GAAP.

(b) No audit, examination or other administrative or court proceeding relating to any Company Return or any Taxes of the Company or the Company Sub is currently in progress, and none of the Company, the Company Sub or Seller has been notified in writing by any Governmental Entity that any such audit is contemplated or pending. All deficiencies for Taxes assessed against the Company or the Company Sub have been fully paid. No extension of time with respect to any date on which a Company Return was required to be filed is in force (other than with respect to any Company Return which has since been filed), and no waiver or agreement by or with respect to the Company or the Company Sub is in force for the extension of time for

the payment of any Taxes. None of the Company, the Company Sub or Seller has waived any statute of limitations with respect to any Taxes of the Company or the Company Sub, which waiver is currently in force. No written claim has been made by any Governmental Entity in the past three (3) years in a jurisdiction where the Company or the Company Sub, as applicable, does not file tax returns that such entity is or may be subject to taxation by that jurisdiction. Neither the Company nor the Company Sub has received a nexus questionnaire from any state or local Tax jurisdiction in which such entity does not file any returns or remit any Taxes.

(c) The Company has at all times since January 1, 2022 qualified as a “qualified subchapter S subsidiary” within the meaning of Section 1361(b)(3) of the Code (and since such date has qualified for similar treatment under state law).

(d) The Company Sub has at all times since the date it was organized been treated as a disregarded entity for U.S. federal income tax purposes.

(e) Neither the Company nor the Company Sub will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (A) change in method of accounting for a taxable period ending on or prior to the Closing Date, including under Section 481 (or any corresponding or similar provision of state, local or non-U.S. income law), (B) “closing agreement” as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or non-U.S. income law) executed on or prior to the Closing Date, (C) intercompany transactions or any excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local or non-U.S. income law), (D) installment sale or open transaction disposition made on or prior to the Closing Date, (E) prepaid amount received on or prior to the Closing Date or (F) election pursuant to Section 965(h) of the Code. There is no application pending with any Governmental Entity requesting permission for any such change in any accounting method of the Company or the Company Sub, and neither the Internal Revenue Service (the “IRS”) nor any state or local Governmental Entity has issued in writing any pending proposal regarding any such adjustment or change in accounting method.

(f) Neither the Company nor the Company Sub is a party to any agreement with any third party relating to allocating or sharing the payment of, or Liability for, taxes. Neither the Company nor the Company Sub has any Liability for the Taxes of any other Person (other than in the case of the Company, Liability for the Taxes of the Company Sub) under Treasury Regulation Section 1.1502-6 (or any similar provision of U.S. state or local or non-U.S. law), as a transferee or successor, or otherwise.

(g) There are no Liens on any of the assets of the Company or the Company Sub that arose in connection with any failure (or alleged failure) to pay any Tax other than Permitted Liens.

(h) Neither the Company nor the Company Sub has participated in any “listed transaction” within the meaning of Treasury Regulation § 1.6011-4(b)(2) and, with respect to each transaction in which the Company or the Company Sub has participated that is a “reportable transaction” within the meaning of Treasury Regulation § 1.6011-4(b)(1), such participation has

been properly disclosed on IRS Form 8886 (Reportable Transaction Disclosure Statement) and on any corresponding form required under state, local or other Applicable Law.

(i) Neither the Company nor the Company Sub has requested or received a ruling from any taxing authority or signed a closing or other agreement with any taxing authority which would affect any taxable period ended after the Closing Date. No power of attorney that is currently in force has been granted with respect to any matter relating to Taxes that could affect the Company or the Company Sub after the Closing Date.

(j) Neither the Company nor the Company Sub has deferred any payroll Tax or availed itself of any of the Tax deferral, credits (including the “employee retention credit”) or benefits pursuant to the CARES Act or otherwise taken advantage of any change in Applicable Law in connection with the COVID-19 outbreak that has the result of temporarily reducing (or temporarily delaying the due date of) otherwise applicable Tax payment obligations of such entity.

(k) No Tax holiday or Tax incentive or grant in any jurisdiction applicable to the Company will terminate (or be subject to clawback or recapture that is payable by Buyer or the Company) as a result of the Transactions.

#### Section 5.12 Material Contracts.

(a) Schedule 5.12 lists the following Contracts to which the Company or the Company Sub is a party or by which its assets are bound, in each case, that relate to, arise from or otherwise involve or affect the Business (each, a “Material Contract”):

(i) any Contract (A) relating to any Company Indebtedness or a guarantee of any such obligation, together with any hedge or swap agreements or similar arrangements, (B) that grants any Lien on any assets, whether tangible or intangible or (C) that extends credit to any Person (including intercompany loans or advances to or from Seller);

(ii) any Contract (including any “take-or-pay” or “keepwell” agreement) under which (A) any Person has, directly or indirectly, guaranteed any liabilities or obligations of the Company or the Company Sub or (B) the Company or the Company Sub has, directly or indirectly, guaranteed any liabilities or obligations of any other Person;

(iii) any Contract concerning completed or pending transfers of MSRs by the Company or the Company Sub to another Person for which the Company or the Company Sub may have continuing Liability;

(iv) any Contract that by its terms limits the payment of dividends or distributions by the Company;

(v) any Contract providing for partnership, joint venture or profit sharing or other agreement involving the sharing of losses, costs or liabilities with another Person;

(vi) any Contract for future capital expenditures;

(vii) any Contract that grants any right of first refusal or right of first offer or similar right to third parties or that limits or purports to limit the ability of the Company in any material respect to pledge, sell, transfer or otherwise dispose of any material amounts of assets or business;

(viii) any Contract providing for any prior consent requirements for a change of control or future payments that are conditioned, in whole or in part, on a change of control with respect to the Company;

(ix) any agency, broker, sale representative, marketing, joint marketing, referral, recapture, affinity, lead-generation or similar Contract, including any Contract related to the marketing and sale of insurance products;

(x) any Contract that contains noncompetition or exclusivity provisions applicable to the Company or the Company Sub or that otherwise purports to limit the Company's or the Company Sub's freedom to compete freely in any line of business or in any geographic area, or a "most favored nation" clause obligating the Company or the Company Sub to change the material terms and conditions of such Contract based on better terms or conditions provided to other parties in similar contracts;

(xi) any Contract, other than this Agreement and any Ancillary Agreements, that commits the Company or the Company Sub to consummate (A) any merger or business combination concerning the Company, (B) the acquisition by the Company or the Company Sub of all or substantially all of the capital stock or assets or any material branch offices of any other Person or (C) the disposition by the Company or the Company Sub of a material portion of its assets to any other Person;

(xii) any Contract that relates to the acquisition or disposition of any assets or properties used in the conduct of the Business (other than in the Ordinary Course of Business) pursuant to which (A) payment obligations remain outstanding, (B) any earn-out, deferred or contingent payment obligations remain outstanding or (C) any indemnification payment obligations remain outstanding;

(xiii) any Contract with (A) any manager, director, officer, shareholder, or Affiliate of the Company or the Company Sub or (B) any other Company Service Provider providing for more than \$25,000 in annual compensation (other than ordinary course, customary materials provided to employees in connection with onboarding, promotions and raises, including related non-disclosure agreements, offer letters, promotion letters, compensation description letters and similar communications) in each case, that is currently in effect or for which outstanding amounts are or are reasonably expected to become due and payable;

(xiv) any collective bargaining agreement, labor contract or other written agreement or arrangement with any labor union or any employee organization.

(xv) any Contract involving aggregate annual expenditures or revenues in excess of \$75,000 and not otherwise disclosed pursuant to other clauses of this Section 5.12; provided, Seller will provide a list of such Contracts with annual expenditures in excess of \$25,000, which list shall be for informational purposes only and such Contracts under \$75,000 shall not be deemed Material Contracts for any purposes under this Agreement;

(xvi) any Servicing Agreement or other Contract pursuant to which the Company or the Company Sub engages in Servicing, including any Underlying Document;

(xvii) any Interest Rate Protection Agreement;

(xviii) any Contract with a Governmental Entity;

(xix) any Contract related to the license of Company Intellectual Property, excluding (A) non-exclusive licenses for off-the-shelf Software; (B) licenses for open-source Software; (C) licenses for Software or other IP Rights embedded in any equipment, fixtures, components, or finished products; (D) non-exclusive implied licenses of IP Rights granted to the Company or the Company Sub; and (E) non-exclusive licenses that are not the primary purpose of the applicable contract;

(xx) any Lease; and

(xxi) any Affiliate Obligation.

(b) The Company has delivered to Buyer a correct and complete copy of each written Material Contract, together with all amendments, exhibits, attachments, waivers or other changes thereto. Neither the Company nor the Company Sub is a party to or otherwise bound by any oral Material Contract.

(c) Each Material Contract is legal, valid, binding and enforceable against the Company or the Company Sub in accordance with its terms, in full force and effect and, to the Knowledge of Seller, binding upon the other parties thereto. Except as set forth on Schedule 5.12(c), (1) no Material Contract has been breached or cancelled by the Company, the Company Sub or any other party thereto; (2) the Company or the Company Sub, as applicable, has performed all material obligations under such Material Contracts required to be performed by the Company or the Company Sub, as applicable; (3) there is no event which, upon giving of notice or lapse of time or both, would constitute a breach or default under any such Material Contract or would permit the termination, modification or acceleration of such Material Contract; and (4) the Company or the Company Sub, as applicable has not assigned, delegated or otherwise transferred to any Person any of its rights, title or interest under any such Material Contract. Neither Seller, the Company nor the Company Sub has received any written notice regarding any violation or breach of, or default under, any Material Contract. Since January 1, 2021, no counterparty to a Material Contract has cancelled or otherwise terminated or materially adversely modified its relationship with the Company or the Company Sub, nor is there any material dispute therewith (and since January 1, 2021, neither the Company nor the Company Sub has not received any written notice of any intention to do so).

**Section 5.13 Compliance with Laws; Permits.**

(a) Except as set forth on Schedule 5.13(a)(i), since January 1, 2018, the Company and the Company Sub have operated and currently operate the Business in compliance in all material respects with all Applicable Laws and Applicable Requirements, and no Proceeding or investigation is pending or, to the Knowledge of Seller, has been threatened alleging any failure to so comply. Except as set forth on Schedule 5.13(a)(ii), since January 1, 2018, neither the Company nor the Company Sub or any of their respective employees have been a party to or subject to (i) any material suspension, debarment, outstanding Order or similar supervisory arrangement with, or a commitment letter or similar submission to, or extraordinary supervisory letter from, any Governmental Entity charged with the supervision or regulation of residential mortgage lenders or the supervision or regulation of the Company, the Company Sub or any such employees; or (ii) any Proceeding or Order that would be reasonably anticipated to lead to the loss, suspension or restriction of any material Permit of the Company or the Company Sub. None of the Company, the Company Sub or any such employee, in their capacity as an employee, is subject to any outstanding Order barring, suspending or otherwise materially limiting the right of such Person to engage in any activity conducted as part of the Business as currently conducted. Except as set forth on Schedule 5.13(a)(iii), there have not been any deficiencies in any exams or audits of the Company, the Company Sub or the Business conducted by any Governmental Entity, Agency or investor. To the Knowledge of Seller, there are no facts, circumstances, conditions or occurrences regarding the Company or the Business that could reasonably be expected to (i) form the basis of a Proceeding under any Applicable Law or Applicable Requirement or (ii) cause any Company Asset to be subject to any restrictions on its ownership, occupancy, operation or use, in each case, except as could not reasonably be expected to be, individually or in the aggregate, material to the Company or the Company Sub.

(b) Neither the Company, the Company Sub nor any officers, directors or employees or any other Persons acting on the Company's or the Company Sub's behalf has: (i) made or offered to make any illegal payment to any officer or employee of any Governmental Entity, or any employee, customer or supplier of the Company or the Company Sub, or (ii) accepted or received any unlawful contributions, payments, expenditures or gifts; and no Proceeding has been filed or commenced, or threatened, alleging any such payments. None of the officers, directors or employees of the Company or the Company Sub is a government official.

(c) Schedule 5.13(c) sets forth a correct and complete list of all Permits material to the Business held by the Company or the Company Sub. Such Permits (i) constitute all material Permits necessary for the operation of the Business as currently conducted, including all Permits used in or necessary under Applicable Requirements for Servicing Mortgage Loans and (ii) are in full force and effect. No Proceeding is pending or, to the Knowledge of Seller, threatened, that would reasonably be expected to result in any revocation or limitation pertaining to any such Permit. The Company and the Company Sub are registered, licensed and qualified as a residential mortgage seller/servicer, servicer, or insurance broker or issuer, as applicable, in accordance with the rules and regulations of each Agency and in the states referenced on Schedule 5.13(c). Neither the Company nor the Company Sub has received (i) any notice of a breach of the terms under any Servicing Agreement, other than with respect to non-material breaches in the ordinary course of servicing Mortgage Loans (such as notices resulting in a request for immaterial compensatory fees)

or (ii) any notice of any cancellation or suspension of, or material limitation on, its status as an approved issuer, seller/servicer or lender, as applicable, by any Agency.

**Section 5.14 Legal Proceedings; Orders.** Except as set forth on Schedule 5.14(i), there are no (and since January 1, 2018 there have not been any) Proceedings or Orders pending or, to the Knowledge of Seller, threatened against or by the Company the Company Sub or, their respective officers, directors or employees with respect to their business activities on behalf of the Company or the Company Sub. Except as set forth on Schedule 5.14(ii), there is no outstanding Order or Proceeding to which the Company or the Company Sub is subject that: (i) asserts a claim of a material failure to comply with any Applicable Law or Applicable Requirements; (ii) requires, or is reasonably expected to require, payment of a non-routine penalty to any Agency or investor or under a contract of insurance; or (iii) is reasonably expected to result in a suspension or revocation of any material Permit held by the Company or the Company Sub.

**Section 5.15 Employment Matters; Employee Benefits.**

(a) Schedule 5.15(a)(i) sets forth a complete and correct list of all Business Employees as of the Signing Date, showing for each (i) name, (ii) hire date, (iii) current job title, (iv) department, (v) work location, (vi) base salary level or hourly rate, as applicable, (vii) whether active or on leave, including type of leave and (viii) status (exempt or non-exempt under the Fair Labor Standards Act and similar state laws). Schedule 5.15(a)(ii) sets forth a complete and correct list of each Company Service Provider who is not a Business Employee, including whether such Company Service Provider is full or part time and, if part time, number of hours engaged per month.

(b) Each Business Employee provides services primarily in respect of the Business. Except as set forth on Schedule 5.15(b), there are no Company Service Providers who are not employed or engaged by the Company or the Company Sub. There are no individuals who perform services for the Company or Company Sub that are material to the operation of the Business who are not Company Service Providers.

(c) Neither the Company nor the Company Sub is a party to any Contracts pursuant to which any Change of Control Payment is or may become due from the Company or the Company Sub to any Person (but determined without regard to whether it was taken into account in the Cutoff Date Statement and the Closing Statement). The engagement of each Company Service Provider is, subject to Applicable Laws involving the wrongful termination of employees, terminable at will (without the imposition of penalties or damages), and neither the Company nor the Company Sub shall have any severance obligations if the service of any Company Service Provider is terminated. To the Knowledge of Seller, no Company Service Provider has any plans to terminate employment with or service to the Company or the Company Sub.

(d) Neither Seller nor its Affiliates has entered into any collective bargaining agreement with any labor union in respect of any current or former Business Employee and no such collective bargaining agreement is currently being negotiated. No current or former Business Employee is represented by a labor union with respect to their employment with the Company or the Company Sub. Neither the Company nor the Company Sub has experienced, or been

threatened with, any strike, slow down, work stoppage or material grievance, claim of unfair labor practices or other collective bargaining dispute. There is not any organizational effort presently being made or, to the Knowledge of Seller, threatened by or on behalf of any labor union in respect of the Business.

(e) The Company and the Company Sub have paid in full, as of the most recent applicable payroll date (or for independent contractors the most recent applicable payment due date), to all of their employees and independent contractors all wages, salaries, commissions, bonuses, benefits and other compensation due and payable to such employees and independent contractors. The Company and the Company Sub have properly classified each person providing services to the Company and the Company Sub in all material respects as either an “employee” or “independent contractor” and as “exempt” or “non-exempt” for purposes of compliance with any and all Applicable Laws. The Company and the Company Sub have complied in all material respects with all laws governing the employment of personnel by U.S. companies and the employment of non-U.S. nationals in the United States, including the Immigration and Nationality Act, 8 U.S.C. Sections 1101 *et seq.*, and its implementing regulations. The Company and the Company Sub are in compliance in all material respects with all laws relating to employment and labor, including, but not limited to, all such laws relating to wages, hours of work, discrimination, civil rights, safety and health, workers’ compensation, unemployment compensation, and the collection and payment of withholding and or Social Security Taxes and similar Taxes.

(f) Except as set forth on Schedule 5.15(f), since January 1, 2018, neither the Company nor the Company Sub has engaged in any activity resulting in an employee of the Company or the Company Sub experiencing a “mass layoff” or “plant closing” pursuant to the WARN Act, and Seller and its Affiliates have complied with the applicable requirements of the WARN Act. Effective as of the Closing Date, Schedule 5.15(f) sets forth the name of each individual who suffered an “employment loss” (as defined by the WARN Act) within ninety (90) days preceding the Closing in circumstances that could cause such employment loss to be aggregated with the employment loss of any Continuing Employee on or after the Closing Date for purposes of triggering notice obligations under the WARN Act.

(g) Except as set forth on Schedule 5.15(g), there is no pending or, to the Knowledge of Seller, threatened charge, claim, settlement or Proceeding against the Company or the Company Sub by or before the Equal Employment Opportunity Commission or any state or local Governmental Entity and there have been no such charges, claims, settlements or Proceedings since January 1, 2018, and, to the Knowledge of Seller, there are no facts, circumstances, conditions or occurrences regarding the Company or the Business that could reasonably be expected to form the basis of any such charge, claim or Proceeding.

(h) Except as set forth on Schedule 5.15(h), a Form I-9 has been completed and retained with respect to each current Business Employee and, where required by Applicable Law, former Business Employees. Since January 1, 2018, the Company has completed background checks on current or former employees to the extent required by and in compliance with Applicable Law.

(i) Schedule 5.15(i) sets forth a complete and correct list of all sexual harassment or other harassment, discrimination or retaliation allegations (that were made in writing

or orally by or related to a current or former employee of the Company or the Company Sub to a member of management or human resources personnel of Seller or its Affiliates) since January 1, 2018. The Company has investigated or reviewed and appropriately documented all sexual harassment or other harassment, discrimination or retaliation allegations (that were made in writing or orally by or related to a current or former employee of the Company or the Company Sub to a member of management or human resources personnel of Seller or its Affiliates) of which it had knowledge since January 1, 2018. With respect to each such allegation with potential merit, the Company has taken corrective action that is reasonably calculated to prevent further improper action.

(j) Schedule 5.15(j) sets forth a complete and correct list of each Company Benefit Plan and indicates, in the case of a Company Benefit Plan that does not apply to all Business Employees, the location(s) at which such Company Benefit Plan is in effect.

(k) Each Company Benefit Plan is maintained exclusively by the Company or the Company Sub or both and provides compensation or benefits exclusively in respect of current or former Company Service Providers. Neither the Company nor the Company Sub has, and from and after the Closing neither Buyer nor its Affiliates (including the Company and the Company Sub) will have, any liability under any Employee Benefit Plan established or maintained by Seller or its Affiliates that is not a Company Benefit Plan.

(l) Each Company Benefit Plan (and each related trust, insurance Contract or fund) has been maintained, funded and administered in all material respects in accordance with the terms of such Company Benefit Plan and complies in form and in operation in all material respects with the applicable requirements of ERISA, the Code, and other Applicable Laws.

(m) The Company has complied in all material respects with the continuation coverage requirements of Section 601 *et.seq.* of ERISA and Section 4980B of the Code with respect to each Company Benefit Plan as applicable. Each Company Benefit Plan that is a “group health plan” as defined in Section 733(a)(1) of ERISA (a “Health Plan”) has been in compliance in all material respects with the Healthcare Reform Laws, and no event has occurred, and no condition or circumstance exists, that would reasonably be expected to subject the Company, its ERISA Affiliates or any Health Plan to material penalties or material excise Taxes under Code Section 4980D, 4980H, or 4980I or any other provision of the Healthcare Reform Laws.

(n) All contributions (including all employer contributions and employee salary reduction contributions) required by Applicable Law or the terms of any Company Benefit Plan to have been made to a Company Benefit Plan have been made within the time periods prescribed by ERISA and the Code, and all contributions for any period ending on or before the Closing Date which are not yet due have been made to each Company Benefit Plan or accrued in accordance with the past custom and practice of the Company and GAAP. All premiums or other payments due for all periods ending on or before the Closing Date have been paid with respect to each Company Benefit Plan that is a welfare benefit plan within the meaning of Section 3(1) of ERISA.

(o) Each Company Benefit Plan which is intended to meet the requirements of a “qualified plan” under Section 401(a) of the Code has received a currently-effective determination letter or is entitled to rely on an opinion letter from the IRS that such Company

Benefit Plan is so qualified, which determination or opinion letter may still be relied upon as to the qualified status of the Company Benefit Plan, and, to the Knowledge of Seller, no event has occurred or circumstance has existed since the date of any such determination that could reasonably be expected to result in the loss of the tax-qualified status of any Company Benefit Plan..

(p) No prohibited transaction within the meaning of Code Section 4975 or ERISA Section 406 or 407, and not otherwise exempt under ERISA Section 408, or to the Knowledge of Seller any other breach of fiduciary duty has occurred with respect to any Company Benefit Plan that would reasonably be expected to subject the Company or the Company Sub to any material liability. No Proceeding with respect to any Company Benefit Plan (other than routine claims for benefits) is pending or, to the Knowledge of Seller, threatened or reasonably anticipated.

(q) With respect to each Company Benefit Plan, the Company has made available to Buyer correct and complete copies, to the extent applicable, of the plan documents and current summary plan descriptions (and in the case of any Company Benefit Plan that is not in written form, a correct and complete description of such Company Benefit Plan as in effect on the Signing Date), the most recent determination letter received from the IRS, the three (3) most recent annual report (Form 5500, with all applicable schedules and attachments), the most recent compliance testing reports, the three (3) most recent Forms 1094-C and 1095-C, and all related trust agreements, insurance Contracts, and other funding arrangements which implement each such Company Benefit Plan.

(r) No Company Benefit Plan provides, and neither the Company nor the Company Sub has any Liability or contingent Liability for providing, death, medical or other welfare-type benefits, beyond termination of service or retirement, other than (i) coverage mandated by COBRA or applicable state law the cost of which is fully paid by the qualified beneficiary or (ii) death or retirement benefits under any Company Benefit Plan that is intended to be qualified under Section 401(a) of the Code.

(s) To the extent that any Company Benefit Plan constitutes a “non-qualified deferred compensation plan” within the meaning of Section 409A of the Code, such Company Benefit Plan has been in compliance in all material respects with Section 409A of the Code and the regulations and applicable guidance promulgated thereunder and no participant in such Company Benefit Plan is reasonably expected to incur additional Taxes or penalties on the benefits under such Company Benefit Plan as a result of actions by the Company prior to the date the benefits are actually paid to the participant, and no participant is entitled to a gross-up, make-whole or indemnification payment with respect to Taxes imposed under Section 409A, Section 457A or 4999 of the Code. Neither the Company nor any of its Affiliates is a nonqualified entity within the meaning of Section 457A of the Code to the extent this would reasonably be expected to result in Liability to the Company or the Company Sub.

(t) Neither the Company nor any ERISA Affiliate has ever contributed to, had any obligation to contribute to, or had any direct or contingent Liability under or with respect to any (i) arrangement that is subject to Section 412 of the Code or Section 302 or Title IV of ERISA, (ii) “multiemployer plan” within the meaning of Section 3(37) or 4001(a)(3) of ERISA,

(iii) multiple employer plan within the meaning of Section 413 of the Code or (iv) multiple employer welfare arrangement within the meaning of Section 3(40) of ERISA.

(u) Neither the execution or delivery of this Agreement and the Ancillary Agreements nor the consummation of the Transactions will (whether alone or together with any other event or events) (i) entitle any employee, consultant, contractor, officer or director of the Company or the Company Sub to any increase in any compensation or benefits (including any cash or equity award or benefit or severance benefit), (ii) accelerate the time at which any compensation, benefits or award may become payable, vested or required to be funded in respect of any such employee, consultant, contractor, officer or director, (iii) entitle any such employee, consultant, contractor, officer or director to any additional compensation, benefits or awards, (iv) give rise to any Change of Control Payments, (v) result in any Liability of the Company or the Company Sub for any Transaction Expense or (vi) result in payments which would not be deductible by reason of Section 280G of the Code.

(v) None of the assets of any Company Benefit Plan is invested in employer securities or employer real property.

(w) There has been no act or omission by the Company or the Company Sub that would impair the ability of the Company (or any successor thereto) to unilaterally amend or terminate any Company Benefit Plan.

(x) Neither the Company nor the Company Sub sponsors, contributes to, has any obligation to contribute to, or has any direct or contingent Liability with respect to any Employee Benefit Plan for the benefit of individuals located outside of the United States.

#### Section 5.16 Privacy and Security Policies; Privacy Statements; Data Protection.

(a) Since January 1, 2018, the Company and the Company Sub have been in compliance in all material respects with all Data Protection Requirements. Since January 1, 2018, the Company and the Company Sub have (i) maintained policies and procedures addressing privacy and information security (“Privacy and Security Policies”) and (ii) as required by Data Protection Requirements and/or applicable published and/or delivered online privacy statements with respect to the Processing of Personal Data by the Company or the Company Sub (each, a “Privacy Statement”) and (iii) obtained all authorizations, consents, licenses, sub-licenses, or other permissions as may be required to comply in all material respects with applicable Data Protection Requirements, and have provided all disclosures, notices, opt-out or opt-in rights or other privacy rights as may be required to comply in all material respects with applicable Data Protection Requirements, and as necessary to Process the Personal Data in its operation of the Business as currently conducted by or on behalf of the Company and the Company Sub.

(b) Since January 1, 2018, the information security practices of the Company and the Company Sub with respect to Personal Data conform and comply in all material respects with Data Protection Requirements. Since January 1, 2018, the Company and the Company Sub have used commercially reasonable efforts to store and secure all Personal Data, which are designed to protect against unauthorized access to and use of the Personal Data. Since January 1, 2018, the Company and the Company Sub have required all Persons, including vendors,

service providers, processors, contractors and subcontractors, whose relationship with the Company and the Company Sub involves the Processing of Personal Data on behalf of the Company and the Company Sub in connection with the performance of services for the Company or the Company Sub, to execute a valid, enforceable, written agreement with the Company, which requires such Persons to protect such Personal Data as required under Data Protection Requirements. Except as set forth on Schedule 5.16(b), to the Knowledge of the Seller, there have been no Security Incidents since January 1, 2018.

(c) All material IT Assets used by the Company and the Company Sub in the conduct of the Business are (i) properly maintained, in all material respects, by technically competent personnel and (ii) in good working condition intended to effectively perform all information technology operations necessary to conduct the Business as currently conducted. Since January 1, 2018, the Company has established and implemented, and maintains and is in compliance in all material respects with a written commercially reasonable disaster recovery program, including providing for the regular back-up and prompt recovery of the material IT Assets and material Company Data of the Company and the Company Sub (including Personal Data that is stored on magnetic or optical media) without material disruption to, or material interruption in, the conduct of the Business. Since January 1, 2018, the Company tests such disaster recovery program on a periodic basis, and such program has proven effective upon testing in all material respects. Such disaster recovery program complies with the requirements of Privacy Laws in all material respects. The Company has delivered to Buyer a complete copy of such disaster recovery plan.

(d) Since January 1, 2018, the Company has established, maintains and is in material compliance with a written information security program covering the Company and the Company Sub that (i) includes safeguards for the security, confidentiality and integrity of transactions and confidential or proprietary data (including Personal Data) that is material to the Business and contained in any database used or maintained by the Company or the Company Sub (the “Company Data”), (ii) protects against unauthorized use, access, interruption, modification or corruption of the material IT Assets used by the Company and the Company Sub and the Company Data, and (iii) complies in all material respects with all Data Protection Requirements. The Company tests such information security program on a periodic basis, and such program has proven effective upon testing in all material respects.

(e) Since January 1, 2018, to the Knowledge of the Seller, no IT Assets used by the Company or the Company Sub have experienced any material disruption, interruption, outage, bugs, failures, breakdowns, breaches or continued substandard performance.

(f) The Company has established, maintains and is in material compliance with a written plan designed to prevent material disruption to, or material interruption in, the conduct of the Business in the event of an epidemic, pandemic or other public health emergency. The Company has delivered to Buyer a correct and complete copy of such plan.

Section 5.17 Real Property. Neither the Company nor the Company Sub owns or has ever owned any interest in real property other than (i) real property owned through routine borrower litigation and foreclosure processes and (ii) the leasehold estates associated with the Leased Real Property. Schedule 5.17(i) sets forth the address of each parcel of Leased Real Property and a true and

complete list of all Leases for each parcel of Leased Real Property. The Company is the holder of the leasehold interest in the Leased Real Property and possesses valid interest thereto, free and clear of all Liens (other than Permitted Liens). With respect to each parcel of Leased Real Property, to the Knowledge of Seller, (i) there are no pending or threatened condemnation Proceedings relating to any such parcel or other matters affecting adversely the current use or occupancy and (ii) there are no Contracts granting to any third party or parties (other than the Company and the Company Sub) the right of use or occupancy of any such parcel, and there are no third parties (other than the Company and the Company Sub) in possession of any such parcel. The Leased Real Property comprises all of the real property necessary to conduct the Business as currently conducted (excluding the Divested Assets), and neither the Company nor the Company Sub is a party to any Contract or option to purchase any real property or interest therein other than the Leases. The real property related to each Lease is sufficient in all material respects, when taken in the aggregate with all the other Leases, for the conduct of the Business as currently conducted.

**Section 5.18 Insurance.** Schedule 5.18(i) sets forth the following information with respect to each insurance policy, bond and surety arrangement with respect to which the Company or the Company Sub is a party, a named insured, or otherwise the beneficiary of coverage, to the extent related to the Business (collectively, the “Company Insurance Agreements”): (i) the name of the insurer and the name of the policyholder; (ii) the policy number and the period of coverage and (iii) the applicable premiums, deductibles, coverage limits and whether such policy is a claims made or occurrence policy. The Company is a named insured under each Company Insurance Agreement. The Company Sub is a named insured under each Company Insurance Agreement other than those indicated on Schedule 5.18(i). There is no claim by the Company or any other Person pending under any such policies and bonds as to which coverage has been questioned, denied or disputed. All premiums payable under all such policies and bonds have been paid. There are no threatened terminations of, or material premium increases with respect to, any of such policies or bonds. Schedule 5.18(ii) sets forth a list of all claims made under the Company Insurance Agreements or under any other insurance policy, bond or agreement covering the Company, the Company Sub or their respective operations since January 1, 2018. Except as set forth on Schedule 5.18(iii), neither the Company nor the Company Sub maintains or participates in any self-insurance program. All Company Insurance Agreements are in full force and effect on their current terms. None will continue to be in full force and effect after the Closing.

**Section 5.19 Affiliate Obligations.** Except as set forth on Schedule 5.19, neither Seller, any of its Affiliates (other than the Company or the Company Sub), nor any officer, partner or director of the Company or the Company Sub: (a) controls or owns, directly or indirectly, more than fifty percent (50%) of any stock or other ownership interest or investment in any Person that is a direct competitor, lessor or lessee of the Business; (b) has any claim against or owes any amount to, or is owed any amount by, the Company or the Company Sub (other than wages or similar compensation due for services in the ordinary course which amounts are not past due); (c) has any interest in or owns, directly or indirectly, any assets, properties or rights necessary to conduct the Business as currently conducted (excluding the Divested Assets); (d) is a party to any Contract to which the Company or the Company Sub is a party or which otherwise benefits or burdens the Business (each, an “Affiliate Obligation”); or (e) has received from or furnished to the Company or the Company Sub any goods or services since the Most Recent Fiscal Year End, or is involved in any business relationship with the Business (other than employment relationships reflected on

Schedule 5.19 and any Servicing by the Company or the Company Sub of any Mortgage Loans pursuant to which such Person serves as mortgagor).

Section 5.20 Brokers' Fees. Neither the Company nor the Company Sub has any Liability to pay any fees or commissions to any broker, finder or agent with respect to the Transactions.

Section 5.21 No Other Representations or Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN ARTICLE IV AND IN THIS ARTICLE V AND THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THE ANCILLARY AGREEMENTS, NEITHER THE COMPANY, THE COMPANY SUB, SELLER, NOR ANY OTHER PERSON MAKES ANY REPRESENTATION OR WARRANTY, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, WITH RESPECT TO THE COMPANY, THE COMPANY SUB, SELLER, THE BUSINESS, OR THEIR OPERATIONS, ASSETS, STOCK OR EQUITY, LIABILITIES, CONDITION (FINANCIAL OR OTHERWISE) OR PROSPECTS. EXCEPT IN CONNECTION WITH THE REPRESENTATIONS AND WARRANTIES SET FORTH IN ARTICLE IV AND IN THIS ARTICLE V (AS MODIFIED BY THE DISCLOSURE SCHEDULES) AND THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THE ANCILLARY AGREEMENTS AND THE DOCUMENTS REFERRED TO THEREIN, BUYER HEREBY EXPRESSLY WAIVES ANY CLAIMS AND CAUSES OF ACTION AND ANY OTHER REPRESENTATIONS OR WARRANTIES, EXPRESS, IMPLIED, AT COMMON LAW, BY STATUTE OR OTHERWISE, IN EACH CASE RELATING TO THE ACCURACY, COMPLETENESS OR MATERIALITY OF ANY INFORMATION, DATA OR OTHER MATERIALS (WRITTEN OR ORAL) HERETOFORE FURNISHED TO BUYER AND ITS REPRESENTATIVES BY OR ON BEHALF OF THE COMPANY, THE COMPANY SUB OR SELLER. WITHOUT LIMITING THE FOREGOING, NEITHER THE COMPANY, THE COMPANY SUB, SELLER, NOR ANY OTHER PERSON IS MAKING ANY REPRESENTATION OR WARRANTY TO BUYER WITH RESPECT TO ANY FINANCIAL PROJECTION OR FORECAST RELATING TO (A) THE BUSINESS OR THE OPERATIONS, (B) ASSETS, (C) LIABILITIES, (D) CONDITION (FINANCIAL OR OTHERWISE) OR (E) PROSPECTS OF THE COMPANY AND THE COMPANY SUB. IN MAKING ITS DETERMINATION TO ENTER INTO THIS AGREEMENT AND TO PROCEED WITH THE TRANSACTIONS CONTEMPLATED HEREBY, BUYER HAS RELIED SOLELY ON THE RESULTS OF ITS OWN INDEPENDENT INVESTIGATION AND ON THE REPRESENTATIONS AND WARRANTIES SET FORTH IN ARTICLE IV AND IN THIS ARTICLE V (AS MODIFIED BY THE DISCLOSURE SCHEDULES) AND THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THE ANCILLARY AGREEMENTS.

## **ARTICLE VI**

### **REPRESENTATIONS AND WARRANTIES OF BUYER**

Except as disclosed on the disclosure schedules delivered by Buyer to Seller immediately prior to the execution of this Agreement, Buyer represents and warrants to Seller as follows:

Section 6.1 Due Organization and Authority. Buyer is duly organized, validly existing, and in good standing under the laws of the State of Arizona. Buyer has full power and authority to

execute and deliver this Agreement and the Ancillary Agreements to which it is or will be a party, to perform its obligations hereunder and thereunder and to consummate the Transactions. Assuming the due authorization, execution and delivery of this Agreement by the other Parties, this Agreement constitutes the valid and legally binding obligation of Buyer, enforceable against it in accordance with the terms of this Agreement, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors generally and by the availability of equitable remedies. Assuming the due authorization, execution and delivery by the other parties thereto, upon the execution and delivery by Buyer of each Ancillary Agreement to which it is a party, such Ancillary Agreement will constitute the valid and legally binding obligation of Buyer, enforceable against it in accordance with the terms of such Ancillary Agreement, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors generally and by the availability of equitable remedies. The execution, delivery and performance of this Agreement and each Ancillary Agreement to which Buyer is a party, and the performance by Buyer of its obligations hereunder and thereunder, have been duly authorized by all requisite corporate action.

Section 6.2 Conflicts; Non-contravention. Assuming the Buyer Approvals and Filings are obtained or made, as applicable, the execution, delivery and performance by Buyer of this Agreement, and the consummation of the Transactions by Buyer do not and will not violate or conflict with (a) any provision of the Organizational Documents of Buyer, (b) any material Contract by which Buyer is bound or is a party or by which its assets are bound or (c) any Applicable Laws or Permits to which Buyer or its property is subject.

Section 6.3 Buyer Approvals. Except as set forth on Schedule 6.3 (collectively, the “Buyer Approvals and Filings”), the execution and delivery of this Agreement and the consummation of the Transactions by Buyer are not subject to any Approval or Filing with respect to Buyer other than such Approvals and Filings the failure of which to obtain or make has not had and would not reasonably be expected to have a material adverse effect on the ability of Buyer to perform its obligations under this Agreement (a “Buyer Material Adverse Effect”).

Section 6.4 Financial Capacity. Buyer will have sufficient cash on hand or other resources of immediately available funds to enable it to make the payment of the Purchase Price and consummate the Transactions.

Section 6.5 Brokers’ Fees. Buyer does not have any Liability to pay any fees or commissions to any broker, finder or agent with respect to the Transactions for which Seller could become liable or obligated.

Section 6.6 No Other Representations or Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN ARTICLE VI AND THE REPRESENTATIONS AND WARRANTIES OF BUYER SET FORTH IN THE ANCILLARY AGREEMENTS, NEITHER BUYER NOR ANY OTHER PERSON MAKES ANY

REPRESENTATION OR WARRANTY, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED WITH RESPECT TO BUYER OR THE TRANSACTIONS.

## **ARTICLE VII**

### **COVENANTS**

Section 7.1 Divestiture. Prior to the Closing Date, Seller and the Company shall, and Seller shall cause the Company to divest (the “Divestiture”), through the transfer or other disposition to Seller or one of its Affiliates or other third parties (a) all retail branch locations of the Company and (b) the RPX Platform (collectively, the “Divested Business”); provided, that in no event shall any Mortgage Loan origination licenses or servicing licenses of the Company or the Company Sub be deemed be a part of the Divested Business. Seller shall consult with Buyer with respect to all material documents and actions contemplated by Seller to effectuate the Divestiture and shall (i) provide Buyer the opportunity to review any and all material documents and steps intended to implement the Divestiture at least five (5) Business Days prior to the intended effective date of any such document or step, and (ii) if a material concern is raised by Buyer, negotiate in good faith to resolve any disagreements. For the avoidance of doubt, (A) without the prior written consent of Buyer (which may be withheld in Buyer’s sole discretion), neither Seller, the Company nor the Company Sub shall, (I) in connection with divesting any portion of the Divested Business to Seller or any of its Affiliates, enter into any Contract which provides for any continuing Liability on the part of the Company or the Company Sub or (II) in connection with divesting any portion of the Divested Business to a third party, enter into any Contract with such third party which provides for any material continuing Liability on the part of the Company or the Company Sub, it being understood that Seller shall agree to expressly assume all Liabilities under any such Contract and Seller shall use reasonable best efforts to cause the Company and the Company Sub to be absolved in full of all Liabilities, and (B) effective as of the Closing, neither the Company nor the Company Sub shall be responsible for any Liabilities related to the Divested Business and all such Liabilities shall be Excluded Liabilities.

Section 7.2 Pre-Closing Conversion. At least one day prior to the Closing Date, Seller shall cause the Company to, pursuant to the applicable provisions of the General Corporation Law of the State of Delaware and the Delaware Limited Liability Company Act, be converted to a limited liability company organized in the State of Delaware, including by making such filings and adopting such organizational documents which are in each case in form and substance satisfactory to Buyer (the “Conversion”). The name of the Company after such conversion as set forth on the certificate of conversion and the certificate of formation shall be RoundPoint Mortgage Servicing, LLC (“Company LLC”). The Company shall not elect to be treated as a corporation for U.S. federal income tax purposes on or at any time after the Conversion. Without limiting the generality of the foregoing, Seller shall provide Buyer the opportunity to review any and all documents and steps intended to implement the Conversion at least ten (10) Business Days prior to the intended effective date of any such document or step. Seller shall, and Seller shall cause the Company to, consult and cooperate with Buyer and shall keep Buyer informed, with respect to all actions to be taken in connection with such conversion.

Section 7.3 Pre-Closing Covenants; Ordinary Conduct. From and after the Signing Date and until the earlier of the Closing Date or valid termination of this Agreement (the “Pre-Closing

Period”), except (a) as consented to or requested in writing by Buyer, (b) in connection with the Divestiture or (c) to the extent required to comply with the terms of this Agreement or Applicable Law, Seller, the Company and the Company Sub shall, and Seller shall cause the Company, and the Company shall cause the Company Sub, to, conduct the Business in the Ordinary Course of Business and in accordance with Applicable Requirements, including using commercially reasonable efforts to (i) maintain the Company’s and the Company Sub’s corporate or other existence in good standing, (ii) preserve, with regard to the Business, its business organization and existing business relationships, including with subservicing clients, (iii) maintain business and accounting records related to the Business at least as complete and accurate as is consistent with past practice, (iv) maintain the Company Assets in good condition and repair, subject to ordinary wear and tear, (v) maintain procedures for protection of Company Owned Intellectual Property and (vi) maintain adequate insurance coverages with respect to the Business, and without limiting the foregoing shall not:

(a) (i) merge or consolidate with or into any other Person or permit any other Person to merge or consolidate with or into it or enter into any other transaction resulting in a change of control of the Company (except for the Transactions), (ii) acquire all or any portion of, the assets, business, deposits, properties or Equity Securities of any Person, (iii) dissolve, liquidate, effect a recapitalization or reorganization, make an assignment for benefit of creditors or file a petition in bankruptcy under Applicable Law or consent to the filing of any bankruptcy petition against it or (iv) create any Subsidiary;

(b) except in connection with the Divestiture, (i) make any material change in the nature of the Business, (ii) amend or terminate any Material Contracts or (iii) enter into any Contract that would constitute a Material Contract;

(c) make any capital expenditures or commitment for any capital expenditures in excess of \$10,000 in the aggregate;

(d) except as may be required by Applicable Law, (i) terminate the employment or engagement of any Company Service Provider in a position identified on Schedule 7.3(d)(i), (ii) hire or engage the service of any Company Service Provider with annual base compensation in excess of \$75,000 other than any replacements, additions or adjustments reasonably necessary for the Business to satisfy its obligations under this Agreement or Applicable Law, (iii) except as may be required by Company Benefit Plan or Contract in existence and as in effect as of the Signing Date (I) increase, decrease, accelerate or otherwise change in any manner (x) the compensation, pension or other benefits payable, or to become payable, to any current or former Company Service Provider other than increases in base compensation in the Ordinary Course of Business in connection with annual review cycles or promotions, provided such increase does not exceed four percent (4%) or (y) any bonus payments or arrangements made to or with any of them, (II) enter into, establish, adopt or amend or fund or secure any Employee Benefit Plan in respect of any current or former Company Service Provider or (III) take any action to accelerate the vesting or time of payment of any compensation or benefits payable to any Company Service Provider;

(e) (i) issue any Equity Securities, (ii) split, combine or reclassify any of its Equity Securities, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for its Equity Securities, (iii) purchase, redeem or otherwise acquire any of its

Equity Securities or sell or transfer any Equity Securities of the Company Sub or (iv) with respect to Seller, sell or otherwise transfer any of the Shares;

(f) amend the Organizational Documents of the Company in any respect;

(g) (i) cancel any debt or waive or compromise any claim or right relating to the Business in one transaction or a series of related transactions, other than compromising or waiving claims associated with routine borrower litigation and foreclosure processes, (ii) incur, assume or guarantee or otherwise become responsible for any Company Indebtedness or (iii) other than in the Ordinary Course of Business, sell, transfer, assign, pledge, lease, license or otherwise dispose of or encumber the Company's assets in one transaction or a series of related transactions;

(h) make any changes to its accounting methods, practices or policies, except as may be required under Applicable Law or GAAP, or change an annual accounting period;

(i) settle or consent to the settlement of any Proceeding filed or otherwise instituted against it or related to the Business (A) resulting in an obligation of the Company or the Company Sub to pay more than \$25,000, (B) which settlement does not include an unconditional release of the Company, the Company Sub and its officers, directors, employees and Affiliates from all Liability, (C) which settlement contains any admission or statement suggesting any wrongdoing or Liability on behalf of the Company, the Company Sub and its officers, directors, employees or Affiliates, (D) which settlement contains any equitable order, judgment or term that in any manner affects, restrains or interferes with the Business, or (E) resulting in a Liability of the Company or the Company Sub owed to a governmental or regulatory authority;

(j) other than (i) in the Ordinary Course of Business, (ii) distributions of Cash on the balance sheet of the Company in accordance with the Company's Organizational Documents, subject to Applicable Requirements, or (iii) as otherwise required in connection with the Divestiture, engage in any transaction with, or enter into any agreement, arrangement or understanding with, directly or indirectly, any Affiliate or make any payment or distribution to any Affiliate;

(k) (i) fail to use reasonable best efforts to maintain all existing state and federal governmental Permits used in or necessary to operate the Business (for the avoidance of doubt, excluding any Permit that is transferred in connection with the Divestiture) or (ii) terminate, cancel or amend any material insurance coverage with respect to the assets or activities of the Business which is not replaced by an adequate amount of insurance coverage at cost not materially exceeding the cost of the applicable terminated, cancelled or amended insurance coverage;

(l) fail to maintain the Company's servicer ratings with any Agency;

(m) make, change or revoke any material Tax election, elect or change a method of accounting for Tax purposes, change its fiscal year, settle or compromise any material Liability for Taxes, amend any Tax Return, enter into or pursue any voluntary disclosure agreement or voluntary disclosure program or similar program with a Governmental Entity, file any ruling or request related to Taxes with a Governmental Entity, fail to file any material Tax Return when due (including applicable extensions), surrender any right to claim a Tax refund, or agree to an

extension of a statute of limitations for Taxes, in each case, unless required by applicable Tax Law (or as a result of a determination by a Governmental Entity that is final);

(n) enter any agreement that would restrict the Company's right to perform under this Agreement or any Ancillary Agreement; and

(o) agree to do any of the foregoing.

Subject to this Section 7.3, Buyer shall not, directly or indirectly, have the right to control or direct the Company's operations prior to the Closing Date. Notwithstanding anything to the contrary herein, during the Pre-Closing Period, the Company may make distributions or declare and pay dividends or otherwise utilize all or a portion of the Cash on the balance sheet of the Company available for distribution, in each case, in accordance with the Company's Organizational Documents.

#### Section 7.4 Cooperation; Approvals and Filings.

(a) Each of the Parties shall, and Seller shall cause the Company to, use its commercially reasonable efforts to take such actions and do such things reasonably necessary, proper or advisable to consummate the Transactions, including obtaining the Transaction Approvals and Filings. Each of the Parties shall, and Seller shall cause the Company to, reasonably cooperate with the other Parties in connection with all actions to be taken in connection with the foregoing.

(b) Each of the Parties shall, and Seller shall cause the Company to, keep each of the other Parties reasonably apprised of the status of matters relating to the consummation of the Transactions and work cooperatively in connection with obtaining or making, as applicable, all of the Transaction Approvals and Filings, including: (i) cooperating with each other in connection with all of the Required Approvals and Filings; (ii) using commercially reasonable efforts to respond as soon as reasonable practicable to any request from any Governmental Entity or Agency in connection with proceedings under or relating to Applicable Laws in connection with the Transactions; and (iii) consulting and cooperating with one another in connection with all analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party in connection with proceedings under or relating to Applicable Laws in connection with the Transactions.

(c) In furtherance and not in limitation of the covenants of the Parties contained in this Section 7.4, subject to applicable legal limitations and redaction where necessary, each Party agrees to (i) furnish to the other such information and assistance as the other may reasonably request in connection with its preparation of any notifications or filings, (ii) keep the other apprised of the status of matters relating to the completion of the Transactions, including promptly furnishing the other with copies of notices or other substantive communications received by such Party from, or given by such Party to, any third party or any Governmental Entity with respect to such Transactions, in each case, to the extent legally permissible, (iii) permit the other Party to review and incorporate the other Party's reasonable comments in any substantive communication to be given by it to any Governmental Entity with respect to any filings or notifications required to be made with, or actions or nonactions, waivers, expirations or terminations of waiting periods,

clearances, consents or orders required to be obtained from, such Governmental Entity in connection with execution and delivery of this Agreement and the consummation of the Transactions and (iv) provide the other Party with a written summary of any unscheduled meetings (whether in person or by telephone) with any Governmental Entity relating to the Transactions. Each Party shall use its reasonable best efforts to share information protected from disclosure under the attorney-client privilege, work product doctrine, joint defense privilege or any other privilege pursuant to this Section 7.4 in a manner so as to preserve any applicable privilege.

(d) Notwithstanding the foregoing or anything else in this Agreement to the contrary, no Party or Affiliate thereof shall have any obligation to offer or pay any consideration (other than customary administrative filing or processing fees or other expenses) in order to obtain any Transaction Approval and Filing, nor shall any Party be required to suffer a Burdensome Condition imposed with respect to such Transaction Approval and Filing (whether such Burdensome Condition imposed by the Transaction Approval and Filing is to become applicable prior to or following the Closing Date).

**Section 7.5    Pre-Closing Access; Confidentiality.**

(a) During the Pre-Closing Period, Seller and the Company shall, and Seller shall cause the Company to give Buyer and its Representatives reasonable access to the Company's officers, personnel, non-natural person clients, material service providers and books and records for the purpose of facilitating the Transactions and to furnish to Buyer and its Representatives such other information concerning the Company which is reasonably requested, and all such information provided to or received by Buyer and its Representatives shall be subject to the Confidentiality Agreement; provided, however, that (i) any such access shall be granted during normal business hours at mutually agreed-to times, with reasonable advance notice to the Company, (ii) any such access shall not unreasonably interfere with the operation of the Business and shall be subject to the Company's and the Company Sub's reasonable security measures, (iii) Buyer and its Representatives shall not contact or otherwise communicate with any Business Employees (except in the Ordinary Course of Business, including in connection with the activities contemplated by the Subservicing Agreement), Company Service Providers or clients, service providers or suppliers of the Company or the Company Sub unless, in each case, approved in writing in advance by Seller or the Company, and (iv) nothing herein shall require the Company or the Company Sub to furnish to Buyer or any of its Representatives or provide Buyer or any of its Representatives with access to information that legal counsel for the Company or the Company Sub reasonably concludes is subject to attorney client privilege.

(b) During the Pre-Closing Period, Seller shall, or shall cause the Company to, deliver to Buyer, no later than twenty (20) days after the end of each calendar month, the Monthly Reporting Package, inclusive of the reports identified on Schedule 7.5(b).

(c) Without limiting Section 7.5(a), Seller and the Company shall, and Seller shall cause the Company to give Buyer and its Representatives reasonable access to the Company Services Providers to the extent necessary, advisable or appropriate to facilitate discussions and coordinate integration planning and each Party's compliance with the covenants set forth in this Article VII.

Section 7.6 Employee Matters.

(a) Effective not more than ten (10) nor less than five (5) days before the Closing, Seller shall provide to Buyer a complete and correct list of each Company Service Provider whose employment or service commenced or ended after the Signing Date, showing to the extent applicable for each (i) name, (ii) hire or engagement date, (iii) current job title, (iv) department, (v) work location, (vi) base salary level or hourly rate, as applicable, (vii) whether full time or part time and, if part time, number of hours engaged per month, (viii) whether active or on leave, including type of leave, (ix) status (exempt or non-exempt under the Fair Labor Standards Act and similar state laws), together with, in the case of any termination, the reason for such termination and whether it was initiated by such Company Service Provider, and (x) with respect to each Company Service Provider that is an independent contractor, the service end date for such independent contractor and name of any applicable contracting company.

(b) Effective as of the Closing, Buyer shall, or shall cause its Affiliates (including the Company and the Company Sub) to, provide each Continuing Employee with: (i) a salary or hourly wage rate not less than and an annual cash bonus opportunity substantially no less favorable than, respectively, the salary or hourly wage rate and annual cash bonus opportunity provided to such Continuing Employee as of the day immediately prior to the Closing, (ii) eligibility for severance payments and benefits that are substantially no less favorable than those that such Continuing Employee would have received if the employment relationship ended other than for cause as of the day immediately prior to the Closing and (iii) employee benefits that are substantially no less favorable in the aggregate than the employee benefits provided to such Continuing Employee as of the day immediately prior to the Closing. Notwithstanding the foregoing, the Parties acknowledge and agree that all Continuing Employees shall be employees “at will.”

(c) Effective as of the Closing, Buyer shall use, and shall cause its Affiliates (including the Company and the Company Sub) to use, commercially reasonable efforts to (i) waive any preexisting condition limitations otherwise applicable to any Continuing Employee and his or her eligible dependents under any Employee Benefit Plan of Buyer or its Affiliates that provides health benefits in which the Continuing Employee is eligible to participate following the Closing, other than any limitations that were in effect with respect to the Continuing Employee and his or her eligible dependents immediately prior to the Closing under the corresponding Company Benefit Plan, (ii) honor any deductible, co-payment and out-of-pocket maximums incurred by a Continuing Employee and his or her eligible dependents under the Health Plans in which they participated immediately prior to transitioning into a plan of Buyer or its Affiliates during the portion of the calendar year prior to such transition in satisfying any deductibles, copayments or out-of-pocket maximums under Health Plans of Buyer or its Affiliates and (iii) waive any waiting period limitation or evidence of insurability requirement that would otherwise be applicable to a Continuing Employee and his or her eligible dependents on or after the Closing Date, in each case to the extent the Continuing Employee or eligible dependent had satisfied any similar limitation or requirement under an analogous Company Benefit Plan prior to the Closing Date.

(d) Nothing contained in this Agreement shall: (i) confer upon any individual any right with respect to continued employment by any of the Parties or their respective Affiliates;

(ii) be treated as an amendment of any Employee Benefit Plan of any of the Parties or their respective Affiliates; or (iii) obligate any of the Parties or any of their respective Affiliates to maintain any particular level of compensation or Employee Benefit Plan or retain the employment of any particular employee.

**Section 7.7    Termination of Dallas Lease.** Seller and the Company shall take or cause to be taken all actions necessary, proper or advisable on their respective parts to terminate that certain Lease Agreement, dated August 30, 2012, by and between Memshalah Realty ADA Compliant, Ltd. and the Company, with respect to real property located at 17300 Preston Road, Dallas, Texas (the “Dallas Lease”), or cause the expiration thereof, in each case no later than December 31, 2022. Effective as of the Closing, neither the Company nor the Company Sub shall be responsible for any Liabilities related to the Dallas Lease, and all such Liabilities shall constitute Excluded Liabilities for purposes of this Agreement.

**Section 7.8    Notice of Certain Matters.** During the Pre-Closing Period, Seller and the Company agree to promptly notify Buyer of any event, circumstance, change or effect that, individually or in the aggregate, Seller or the Company become aware of that (a) has or is reasonably expected to have a Company Material Adverse Effect or Seller Material Adverse Effect, (b) could result in an adverse impact on the Company or the Business as a result of the Divestiture, (c) has or is reasonably likely to result in any condition set forth in Article X not being satisfied or (d) could cause or constitute a material breach of any of its representations, warranties, covenants or agreements contained herein.

**Section 7.9    Preservation of Records.** Buyer agrees that it shall preserve and keep the records held by it or its Affiliates relating to the business of the Company and the Company Sub for a period of seven (7) years from the Closing Date and shall make such records and personnel available to Seller as may be reasonably required by Seller in connection with, among other things, any insurance claims by, Proceedings or Tax audits against or governmental investigations of Seller or in order to enable Seller to comply with their respective obligations under this Agreement and each other Ancillary Agreement.

**Section 7.10    Intercompany Accounts.** Immediately prior to Closing, all intercompany accounts between Seller and/or any of its Affiliates (other than the Company or the Company Sub) on the one hand, and the Company or the Company Sub, on the other hand, shall be settled or otherwise eliminated, in form and substance reasonably acceptable to Buyer. Except for all intercompany accounts, all other arrangements, understandings or Contracts, including all obligations to provide goods, services or other benefits, by Seller and/or any of its Affiliates (other than the Company or the Company Sub), on the one hand, and the Company or the Company Sub, on the other hand, shall be terminated without any party having any continuing Liability to the other, except for this Agreement and the Ancillary Agreements.

**Section 7.11    Sublease.** Each of Seller and Buyer undertakes and agrees to, as promptly as practicable following the Signing Date, negotiate in good faith and take or cause to be taken all actions, and to do or cause to be done all things necessary, proper or advisable on their respective parts to execute and enter into a Sublease (the “Sublease”) no later than the Closing Date concerning the sublease of a portion of the Leased Real Property located in Fort Mill, South

Carolina, which such Sublease shall be in accordance with the terms and conditions set forth on Exhibit C.

Section 7.12 Subservicing Agreement.

(a) Each of Seller, Company and Buyer undertakes and agrees to, as promptly as practicable following the Signing Date, but no later than August 15, 2022, use commercially reasonable efforts to take or cause to be taken all actions, and to do or cause to be done all things necessary, proper or advisable on their respective parts to execute and enter into a Subservicing Agreement substantially in the form attached as Exhibit D (the “Subservicing Agreement”).

(b) Buyer agrees to engage the Company as subservicer and to board Mortgage Loans with the Company to be subserviced pursuant to the Subservicing Agreement in such amounts and by such dates forth on Schedule 7.12 (the “Servicing Transfer Schedule”). Buyer’s obligation to board Mortgage Loans by any designated date shall in each instance be subject to: (i) the receipt of any required approval from any Agency or Governmental Entity (provided that Buyer and Seller agree, and Seller agrees to cause the Company, to use reasonable best efforts to obtain all such approvals); (ii) the Company’s ongoing maintenance of the Minimum Staffing Ratio; and (iii) the Company’s ability to otherwise accept or begin servicing any particular Mortgage Loans. The number of Mortgage Loans that shall count toward Buyer’s satisfaction of the Subservicing Threshold at any time shall include Mortgage Loans boarded with the Company (the “Boarded Loans”); provided, that the number of Boarded Loans shall be reduced by any Mortgage Loans that, after being boarded with the Company, are subsequently transferred to another mortgage servicer; provided, further, that the number of Boarded Loans shall not be reduced by any Mortgage Loans that, after being transferred to the Company, are subsequently paid in full or otherwise liquidated.

(c) Buyer shall be required to pay a Minimum Servicing Fee in the event the number of Boarded Loans does not meet the Subservicing Threshold as of the applicable date set forth in the Servicing Transfer Schedule. The Minimum Servicing Fee will continue to be charged to and payable by Buyer on a monthly basis to the extent and for so long as Buyer fails to meet the Subservicing Threshold. Any Minimum Servicing Fee will be paid by Buyer within thirty (30) days after the end of the calendar month in which it was incurred.

(d) Buyer shall be entitled to receive a Minimum Servicing Fee Credit in the event the number of Boarded Loans exceeds the Subservicing Threshold as of the applicable date set forth in the Servicing Transfer Schedule. The Minimum Servicing Fee Credit will continue to accrue to Buyer on a monthly basis to the extent and for so long as Buyer exceeds the Subservicing Threshold. To the extent Buyer makes any Minimum Servicing Fee payment to the Company pursuant to Section 7.12(c), any subsequent Minimum Servicing Fee Credit earned by Buyer will be paid by the Company up to the full amount of such prior Minimum Servicing Fee within thirty (30) days after the end of the month in which it was incurred. Accrued by unused Minimum Servicing Fee Credits at the end of the Servicing Transfer Schedule shall expire without further payment requirement by the Company.

Section 7.13 Tax Credits. Seller and the Company shall, and Seller shall cause the Company to, use commercially reasonable efforts to take or cause to be taken all actions, and to do or cause to

be done all things necessary, proper or advisable to seek and obtain an extension of the Company's Job Tax Credits pursuant to the South Carolina Department of Revenue New Jobs Credit Program.

**Section 7.14 Servicing Platform Agreements.** Seller and the Company shall, and Seller shall cause the Company to, use commercially reasonable efforts to take or cause to be taken all actions, and to do or cause to be done all things necessary, proper or advisable to maintain the effectiveness of that certain Master Agreement No. 596-09M by and between Black Knight Servicing Technologies, LLC and the Company.

**Section 7.15 No Solicitation.**

(a) During the Pre-Closing Period, Seller and the Company shall, and Seller shall cause the Company to, immediately cease and cause to be terminated any activities, discussions or negotiations commenced prior to the Signing Date with any parties other than Buyer and its Affiliates with respect to the Transactions or the sale of any Equity Securities or assets of the Company (each a "Competing Proposal") and, prior to the Closing Date, shall not initiate or engage in any activities, discussions or negotiations after the Signing Date with any third party regarding the foregoing.

(b) Seller shall as promptly as reasonably practicable (and in any event within twenty-four (24) hours after receipt) notify Buyer in writing of receipt by Seller or any of its Affiliates or representatives of any inquiries, proposals, offers or requests for information relating to a Competing Proposal and provide Buyer with a copy of any written communications and a summary of any oral communications.

**Section 7.16 Supplements.** The Seller shall, and shall cause the Company to, by notice delivered to Buyer in writing, from time to time prior to the Closing, in the event of any change or development described in this Section 7.16, supplement or amend the Schedules relating to the representations and warranties in Article IV and V to reflect changes or developments arising after the Signing Date (each a "Supplement"); provided, that no Supplement pursuant to this Section 7.16 (other than Schedule 5.15(f)) shall be deemed to have cured any breach of any representation or warranty contained in this Agreement, including for purposes of the indemnification or termination rights contained in this Agreement or of determining whether the conditions set forth in Section 10.2(a), Section 10.2(b) or Section 10.2(e) have been satisfied; provided, further that in the event Seller or the Company delivers one or more Supplements (other than Schedule 5.15(f)) and the facts or circumstances described in such Supplement or Supplements would reasonably be expected to cause the conditions specified in Section 10.2(a), Section 10.2(b) or Section 10.2(e) to not be satisfied, then Buyer shall have no obligation to consummate the Closing and shall be entitled to terminate this Agreement pursuant to Section 11.1(c).

## **ARTICLE VIII**

### **POST-CLOSING COVENANTS**

**Section 8.1 Further Action.** In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement or any Ancillary Agreement, each of the Parties will

take such further action as any other Party may reasonably request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Article XII below).

## Section 8.2 Confidentiality.

(a) The terms of the Confidentiality Agreement are incorporated into this Agreement by reference and shall continue in full force and effect until the Closing notwithstanding any earlier termination or expiration date set forth therein. Upon the Closing, the Confidentiality Agreement shall terminate, and Section 8.2(b) and (c) shall govern the confidentiality obligations of the Parties following the Closing. If, for any reason, the Closing is not consummated and this Agreement is terminated, the Confidentiality Agreement shall remain in full force and effect in accordance with its terms. The Parties acknowledge and agree that (i) following the Closing all confidential information of the Company and the Company Sub shall be treated as confidential information of Buyer for the purposes of Section 8.2(c) and (ii) for all purposes hereunder, prior to and following the Closing, all confidential information related to the Divested Business shall be treated as confidential information of Seller for the purposes of Section 8.2(b).

(b) Subject to Section 13.1, following the Closing, Buyer shall, and shall cause its Affiliates and its and their respective Representatives to, hold in strict confidence all, and not divulge or disclose any, information of any kind concerning the Transactions or Seller, its Affiliates, or its and its Affiliates' respective businesses, including the Divested Business; provided, however, that the foregoing obligation of confidence shall not apply to (i) information that is or becomes generally available to the public other than as a result of a disclosure by Buyer, any of its Affiliates, or any of its or their respective Representatives, (ii) information that is or becomes available to Buyer, any of its Affiliates, or any of its or their respective Representatives on a non-confidential basis prior to its disclosure by Seller, its Affiliates, or any of its or their respective Representatives or (iii) information that is required to be disclosed by Buyer, any of its Affiliates, or any of its or their respective Representatives as a result of any Applicable Law, provided that Buyer shall provide advance written notice to Seller of any disclosure pursuant to clause (iii) of this Section 8.2(b), to the extent legally permissible.

(c) Subject to Section 13.1, following the Closing, Seller shall, and shall cause its Affiliates and its and their Representatives to, hold in strict confidence all, and not divulge or disclose any, information of any kind concerning the Transactions or Buyer, its Affiliates (including the Company and the Company Sub), or its and its Affiliates' respective businesses, including the Business; provided, however, that the foregoing obligation of confidence shall not apply to (i) information that is or becomes generally available to the public other than as a result of a disclosure by Seller, any of its Affiliates, or any of its or their respective Representatives, (ii) information that is or becomes available to Seller, any of its Affiliates, or any of its or their respective Representatives on a non-confidential basis prior to its disclosure by Buyer, its Affiliates, or any of its or their respective Representatives or (iii) information that is required to be disclosed by Seller, any of its Affiliates, or any of its or their respective Representatives as a result of any Applicable Law, provided that Seller shall provide advance written notice to Buyer of any disclosure pursuant to clause (iii) of this Section 8.2(c), to the extent legally permissible.

**Section 8.3    Delivery of Dataroom File.** As promptly as possible following the Closing, Seller shall, or shall cause the Company to, deliver to Buyer an electronic storage device containing all of the data files in the Dataroom as of the Closing.

**Section 8.4    Director and Officer Indemnification.**

(a)    Buyer agrees that all rights to indemnification or exculpation or advancement of expenses now existing in favor of the current and former directors and officers of the Company or the Company Sub, as provided in such entity's Organizational Documents as in effect as of the Signing Date and made available to Buyer, in each case to the extent consistent with Applicable Law, with respect to any matters occurring prior to the Closing, shall survive the Transactions and shall continue in full force and effect in accordance with this Section 8.4. For a period of six (6) years from the Closing, the indemnification and liability limitation or exculpation provisions of the Organizational Documents of the Company and the Company Sub shall not be amended, repealed or otherwise modified in any manner that would materially adversely affect the rights thereunder of individuals who, as of the Closing or at any time prior to the Closing, were directors or officers of the Company or the Company Sub, unless such modification is required by Applicable Law.

(b)    Prior to the Closing, the Company shall obtain a directors' and officers' liability "tail" or "runoff" insurance program (the "D&O Tail") covering for a period of six (6) years after the Closing Date the Persons who are, as of and prior to the Closing, covered by the Company's and the Company Sub's officers' and directors' liability insurance policies with respect to actions and omissions occurring prior to and at the Closing, on terms which are no less favorable to such Persons than the terms of such current insurance in effect for the Company and the Company Sub prior to the Closing. The costs and fees of the D&O Tail shall be borne by the Company as a Transaction Expense.

**Section 8.5    Restrictive Covenants.**

(a)    Seller Restrictive Covenants.

(i)    Seller shall not, and shall cause its Affiliates not to, for a period beginning on the Closing Date and ending three (3) years from and after the Closing Date (the "Restricted Period"), directly or indirectly, solicit or entice, or attempt to solicit or entice, any existing Subservicing Clients for Business services, including for purposes of diverting their business or services from Buyer or the Company provided, however, that nothing in this Section 8.5(a)(i) shall prohibit Seller from (I) engaging in general solicitations or general advertising not targeted to such Subservicing Clients or (II) interim servicing or subservicing MSRs for any Subservicing Client to the extent acquired through the RPX Platform and not, for the avoidance of doubt, in connection with the Business.

(ii)    In the event any Subservicing Client set forth on Schedule 8.5(a)(ii) (the "Excluded Clients") becomes a subservicing client or subservicing customer of Seller or any of its Affiliates (other than the Company or Company Sub or through interim servicing or subservicing of MSRs for the Excluded Clients to the extent acquired through the RPX Platform) prior to the Closing Date, the Purchase Price paid in accordance with

Section 3.2 shall be decreased by an amount equal to (A) the projected subservicing fees payable by such Excluded Client to the Company or the Company Sub during the period commencing on the Signing Date and ending on the Closing Date, based on the Company's projections provided to Buyer prior to the Signing Date *minus* (B) the subservicing fees actually paid by such Excluded Client to the Company or the Company Sub for subservicing performed during such period (such amount, the "Excluded Client Fees").

(iii) Seller shall not, and shall cause its Affiliates not to, during the Restricted Period, directly or indirectly, solicit or entice, or attempt to solicit or entice, any Subservicing Customers unless otherwise agreed upon with Buyer in writing. Promotions directed to the general public at large not targeted to such Subservicing Customers, including, without limitation, mass mailing based on commercially acquired mailing lists, newspaper, radio, and television advertisements, shall not constitute prohibited solicitations.

(iv) Seller shall not, and shall cause its Affiliates not to, during the Restricted Period, directly or indirectly, employ, hire, or attempt to or solicit to hire any employee or officer of Buyer or the Company, including any Continuing Employee; provided, however, that nothing in this Section 8.5(a)(iv) shall prohibit Seller from: (A) engaging in general solicitations to the public or general advertising not targeted to such employees of Buyer or the Company (including through agencies), (B) soliciting any person terminated by Buyer or the Company within thirty (30) days following the Closing Date or the persons listed on Schedule 8.5(a)(iv), (C) other than the persons subject to the foregoing clause (B), soliciting any person who has ceased to be employed by Buyer or the Company for a period of at least three (3) months following the Closing Date (provided that this clause (C) shall not apply to the individuals referenced in clause (B)), or (D) employing any such employee as a result of activities permitted by (A), (B) or (C).

(v) Seller acknowledges and agrees that the covenants set forth in this Section 8.5(a) are reasonable and necessary in terms of time, area and line of business to protect Buyer's legitimate business interests, which include its goodwill associated with the ongoing Business. To the extent that the covenants provided for in this Section 8.5(a) may later be deemed by a court to be too broad to be enforced with respect to duration or with respect to any particular activity or geographic area, the court making such determination shall have the power to reduce the duration or scope of the provision, and to modify or delete specific words or phrases in or from the provision. The provision as modified shall then be enforced.

(b) Buyer Restrictive Covenants.

(i) Buyer shall not, and shall cause its Affiliates not to, during the Restricted Period, establish a platform that creates a marketplace or brokerage to facilitate the purchase and sale of MSRs between buyers and sellers that competes with the RPX Platform. Notwithstanding anything to the contrary contained herein, neither (A) the operation of Buyer's or any of its Affiliates' businesses as currently conducted or as conducted during the twelve (12) month period prior to the Signing Date or (B) the

performance by Buyer or any of its Affiliates of their respective obligations under any Ancillary Agreement shall be deemed to violate the provisions of this Section 8.5(b)(i).

Section 8.6 Cyber Policy. Prior to the Closing, Seller shall cause the Company to obtain a technology errors and omissions and cyber security insurance policy covering the Company and the Company Sub for Cyber Losses, which policy shall have a one (1) year term commencing on the Closing Date and shall be in accordance with the terms set forth on Schedule 8.6 or on such other terms as the Parties may mutually agree (the “Cyber Policy”). Seller shall be responsible for the costs and fees to obtain the Cyber Policy. In addition Seller shall pay the deductible under such Cyber Policy in an amount up to \$250,000 for each claim for Cyber Losses made under the Cyber Policy relating to actions occurring prior to the Closing Date. Upon expiration of the one (1) year term of the Cyber Policy, Buyer may, at its election and cost, cause the Company to renew the Cyber Policy or add an addendum to or otherwise expand coverage under Buyer’s existing cyber security insurance policies. For the one (1) year period following such renewal or entry into such addendum, Seller shall pay the deductible under such Cyber Policy in an amount up to \$250,000 for each claim for Cyber Losses made under such Cyber Policy relating to actions occurring prior to the Closing Date.

## **ARTICLE IX**

### **CERTAIN TAX MATTERS**

The following provisions will govern the allocation of responsibility between Buyer and Seller for certain Tax matters:

Section 9.1 Straddle Periods.

(a) Whenever it is necessary to determine the liability for Taxes of the Company or the Company Sub attributable to any Tax period that begins on or before the Cutoff Date and ends after the Cutoff Date, the determination of the Taxes of the Company or the Company Sub for the portion of the Cutoff Date Straddle Period ending on and including the Cutoff Date shall be determined by assuming that the Cutoff Date Straddle Period consisted of two taxable years or periods, one which ended at the close of the Cutoff Date and the other which began at the beginning of the day following the Cutoff Date, and items of income, gain, deduction, loss or credit of the Company or the Company Sub for the Cutoff Date Straddle Period shall be allocated between such two taxable years or periods on a “closing of the books basis” by assuming that the books of the Company or the Company Sub were closed at the close of the Cutoff Date, provided, however, that exemptions, allowances, deductions or Taxes that are calculated on an annual basis, such as ad valorem and other similar Taxes imposed on property, franchise based solely on capital, and depreciation deductions, shall be apportioned between such two taxable years or periods on a daily basis.

(b) Whenever it is necessary to determine the liability for Taxes of the Company or the Company Sub attributable to any Tax period that begins on or before the Closing Date and ends after the Closing Date, the determination of the Taxes of the Company or the Company Sub for the portion of the Closing Date Straddle Period ending on and including the Closing Date shall be determined by assuming that the Closing Date Straddle Period consisted of

two taxable years or periods, one which ended at the close of the Closing Date and the other which began at the beginning of the day following the Closing Date, and items of income, gain, deduction, loss or credit of the Company or the Company Sub for the Closing Date Straddle Period shall be allocated between such two taxable years or periods on a “closing of the books basis” by assuming that the books of the Company or the Company Sub were closed at the close of the Closing Date, provided, however, that exemptions, allowances, deductions or Taxes that are calculated on an annual basis, such as ad valorem and other similar Taxes imposed on property, franchise based solely on capital, and depreciation deductions, shall be apportioned between such two taxable years or periods on a daily basis.

Section 9.2 Tax Sharing Agreements. Seller shall terminate or cause to be terminated, on or before the Closing Date, all Tax sharing or allocation agreements or arrangements (whether or not written), if any, to which the Company or the Company Sub is a party so that after such time such entities will have no further rights or obligations thereunder or in respect thereof.

Section 9.3 Pre-Closing Tax Period Tax Returns. Seller shall prepare and timely file, or cause to be prepared and timely filed, (i) all Tax Returns of the Company and the Company Sub due on or prior to the Closing Date and (ii) all income Tax Returns of the Company and the Company Sub relating exclusively to any Tax period ending on or before the Closing Date (a “Pre-Closing Tax Period”). All such Tax Returns shall be prepared in accordance with past practice (except to the extent otherwise required by Applicable Law). Seller shall deliver a copy of any such Tax Returns to the Buyer for review and comment not less than twenty (20) Business Days prior to the date on which such Tax Return is due to be filed (taking into account any applicable extensions) and shall incorporate any reasonable changes requested by Buyer within ten (10) Business Days after delivery of such Tax Return to the Buyer. Buyer shall cause the Company and the Company Sub to sign and timely file any such Tax Returns prepared pursuant to this Section 9.3 that are due after the Closing Date.

Section 9.4 Other Tax Returns. Buyer shall prepare and timely file, or cause to be prepared and timely filed, all Tax Returns of the Company and the Company Sub other than those Tax Returns that are described in Section 9.3; provided that, with respect to any such Tax Returns prepared by Buyer that relate to a Pre-Closing Tax Period or a Closing Date Straddle Period, (i) the Tax Return shall be prepared in accordance with past practice (except to the extent otherwise required by Applicable Law), (ii) Buyer shall deliver a copy of any such Tax Return to Seller for review and comment not less than twenty (20) Business Days prior to the date on which such Tax Return is due to be filed (taking into account any applicable extensions) and (iii) Buyer shall consider in good faith any changes reasonably requested by Seller within ten (10) Business Days after delivery of such Tax Return to Seller.

Section 9.5 Transfer Taxes. All transfer, documentary, sales, use, stamp, registration, value added and other such Taxes and fees (including any penalties and interest) arising from the Transactions (“Transfer Taxes”) will be borne half (50%) by Buyer and half (50%) by Seller. The Party responsible under Applicable Law for filing the Tax Returns with respect to such Transfer Taxes shall prepare and timely file such Tax Returns and promptly provide a copy of such Tax Return to the other Parties. Each of Seller and Buyer shall, and shall cause their respective Affiliates to, cooperate to timely prepare and file any Tax Returns or other filings relating to such

Transfer Taxes, including any claim for exemption or exclusion from the application or imposition of any Transfer Taxes.

**Section 9.6 Cooperation; Audits.** In connection with the preparation of Tax Returns, audit examinations, and any administrative or judicial proceedings relating to the Tax liabilities imposed on the Company or the Company Sub for all Pre-Closing Tax Periods and any portion of a Closing Date Straddle Period ending on and including the Closing Date, Buyer and the Company, on the one hand, and Seller and its Affiliates, on the other hand, shall cooperate with each other, including, without limitation, the furnishing or making available during normal business hours of records, personnel (as reasonably required), books of account, powers of attorney or other materials necessary or helpful for the preparation of such Tax Returns, the conduct of audit examinations or the defense of claims by taxing authorities as to the imposition of Taxes; provided, that Buyer shall not be required to provide to Seller any consolidated, combined or unitary group Tax Return or portion thereof (including any work papers or related documentation) of Buyer or its Affiliates (other than the Company or the Company Sub, as applicable).

**Section 9.7 Tax Controversies.**

(a) Following the Closing, if a notice of deficiency, proposed adjustment, assessment, audit, examination or other administrative or court proceeding, suit, dispute or other claim with respect to the Company or the Company Sub (a “Tax Matter”) shall be received by Seller, Buyer, the Company or the Company Sub (a “Notified Party”) from the IRS or any other taxing authority, with respect to Taxes for which another party may reasonably be expected to be liable pursuant to this Agreement, the Notified Party shall notify such other party in writing within five (5) days of receipt of such notice of such Tax Matter.

(b) Seller shall have the right to control any Tax Matter to the extent that the Tax Matter relates exclusively to a Pre-Closing Tax Period or to any Tax Return prepared by Seller pursuant to Section 9.3, in each case to the extent Seller may reasonably be expected to be liable pursuant to this Agreement (including under Section 12.2(a)(i)) with respect to the Taxes relating to such Tax Matter, and to employ counsel of its choice at its expense; provided, however, that (i) Seller shall keep Buyer reasonably informed as to the status of the Tax Matter (including by providing copies of all notices received from the relevant taxing authority) and Buyer shall have the right to review and comment on any correspondence from Seller to the taxing authority prior to submission of such correspondence to the taxing authority and otherwise to participate (at Buyer’s own expense) in the conduct of such Tax Matter and (ii) Seller shall not settle or compromise such Tax Matter or forego any appeal with respect thereto without Buyer’s prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. If Seller does not assume the defense of any such Tax Matter, Buyer may defend the Tax Matter in such manner as it may deem appropriate; provided, however, that Seller shall have the right to review and comment on any correspondence from the Buyer to the taxing authority prior to submission of such correspondence to the taxing authority and otherwise to participate in any such Tax Matter (at Seller’s expense) and Buyer may not settle or compromise such Tax Matter or forego any appeal with respect thereto without Seller’s prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. To the extent of any inconsistency between this Section 9.7(b) and Section 12.5, this Section 9.7(b) shall control.

(c) Buyer shall have the right to control any Tax Matter (other than as set forth in Section 9.7(b)) and to employ counsel of its choice; provided, however, that, to the extent Seller may reasonably be expected to be liable pursuant to this Agreement with respect to the Taxes relating to such Tax Matter, (i) Buyer shall keep Seller reasonably informed as to the status of the Tax Matter (including by providing copies of all notices received from the relevant taxing authority) and Seller shall have the right to review and comment on any correspondence from the Buyer to the taxing authority prior to submission of such correspondence to the taxing authority and otherwise to participate (at Seller's own expense) in the conduct of such Tax Matter, and (ii) the Buyer shall not settle or compromise such Tax Matter or forego any appeal with respect thereto without Seller's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed.

Section 9.8 Refunds. Except to the extent taken into account in the calculation of Closing Date Tangible Net Book Value, Seller will be entitled to any refunds of Taxes with respect to any Tax Return related to a Pre-Closing Tax Period (or any portion of a Closing Date Straddle Period ending on and including the Closing Date). Buyer will be entitled to any refunds of Taxes of the Company and the Company Sub, other than refunds or credits to which Seller is entitled under the foregoing sentence. Each Party will pay, or cause its Affiliates to pay, to the Party entitled to a refund of Taxes under this Section 9.8, the amount of such refund (including any interest paid thereon and net of any out-of-pocket expenses and Taxes to the Party receiving such refund in respect of the receipt or accrual of such refund) in readily available funds within fifteen (15) days of the actual receipt of the refund or the application of such refund against amounts otherwise payable. Buyer shall, and shall cause its Affiliates to, take all commercially reasonable actions necessary, or requested by Seller, to timely claim any refunds that will give rise to a payment under this Section 9.8.

Section 9.9 Intended Tax Treatment. Seller and Buyer hereby agree to treat, based on Section 1361(b)(3)(C)(ii) of the Code, the sale and purchase of the Shares pursuant to this Agreement as the sale and purchase of the assets of the Company for U.S. federal income tax purposes and shall report the sale consistently with such treatment for U.S. federal income tax purposes, except if otherwise required by a final "determination" (within the meaning of Section 1313(a) of the Code).

Section 9.10 Allocation of Purchase Price for Tax Purposes. As soon as practicable and, in any event, within thirty (30) days following the final determination of the Closing Statement pursuant to Section 2.2, Buyer will provide to Seller a proposed allocation of the Purchase Price (along with other items of consideration for U.S. federal income tax purposes) among the assets of the Company in accordance with Section 1060 of the Code ("Buyer's Proposed Allocation"). Upon delivery of such proposed allocation, Seller and Buyer shall negotiate in good faith to resolve any disputes; provided, however, that if Seller and Buyer are unable to resolve any dispute with respect to the proposed allocation within thirty (30) days after the Buyer's delivery of the proposed allocation, the Parties shall submit the disputed item(s) to the Independent Accounting Firm for resolution under the terms and procedures set forth in Section 2.2(d). The Independent Accounting Firm's resolutions shall be conclusive and binding on the Parties. The Parties agree not to take any position, in connection with any Tax Return, audit or similar proceeding related to Taxes, that

is inconsistent with this Section 9.10, except as otherwise required by a final “determination” (within the meaning of Section 1313(a) of the Code).

## ARTICLE X

### CONDITIONS TO CLOSING

Section 10.1 Conditions of All Parties. The respective obligations of the Parties to consummate the Transactions are subject to the satisfaction or waiver by Buyer and Seller, as applicable, at or prior to the Closing of the following conditions:

(a) No Injunction or Restraint. There shall not be in effect any temporary or permanent restraining order, decree, ruling or injunction or other Order of a court or other Agency or Governmental Entity of competent jurisdiction directing that the Transactions not be consummated, making such consummation unlawful, or otherwise materially limiting or restricting ownership or operation of the Business or any material assets held by the Company following the Closing; and

(b) No Action. No Proceeding shall be pending or threatened in writing wherein an unfavorable Order would reasonably be expected to prevent the carrying out of this Agreement, any Ancillary Agreement, or any of the Transactions, declare unlawful the Transactions or cause such transactions to be rescinded; provided, that this clause (b) shall not be invoked in the event of Proceedings commenced by a Party against one or more other Parties.

Section 10.2 Conditions of Buyer. The obligations of Buyer to consummate the Transactions shall be subject to the fulfillment or waiver in writing by the Buyer of, at or prior to the Closing, the following conditions:

(a) Accuracy of Representations and Warranties and Performance of Covenants. The representations and warranties contained in Section 4.1 (Due Organization, Qualification and Authority), Section 4.2 (Shares), Section 4.3 (Conflicts; Non-contravention), Section 4.6 (Brokers’ Fees), Section 5.1 (Due Organization, Qualification and Authority), Section 5.2 (Capitalization and Subsidiaries), Section 5.3 (Conflicts; Non-contravention), and Section 5.20 (Brokers’ Fees) of this Agreement (collectively, the “Seller Fundamental Representations”) will be true and correct in all respects as if made on the Signing Date and the Closing Date except for (i) changes specifically permitted by this Agreement, and (ii) those representations and warranties that address matters only as of a particular date need only be true and correct in all respects as of such date. The representations and warranties contained in Article IV and Article V (other than the Seller Fundamental Representations) shall be true and correct in all respects, in each case as if made on and as of the Signing Date and the Closing Date, except for (i) changes specifically permitted by this Agreement, (ii) those representations and warranties that address matters only as of a particular date need only be true and correct in all respects as of such date, and (iii) those instances (including in (i) and (ii)) in which the failure of the representations and warranties to be true and correct is not, individually or in the aggregate, or would not reasonably be expected to be, material to the Company or the Business.

(b) Covenants. Seller, the Company and the Company Sub shall have performed in all material respects all of the obligations and complied in all material respects with all of their respective covenants, agreements and conditions set forth in this Agreement or any other Ancillary Agreement and required to be performed or complied with by Seller at or prior to the Closing.

(c) Divestiture. Seller and the Company shall have completed the Divestiture in accordance with Section 7.1.

(d) Required Approvals and Filings. The Required Approvals and Filings shall have been obtained or made, as applicable, without the imposition of any Burdensome Condition (regardless of whether such Burdensome Condition is purported to take effect prior to or following the Closing Date).

(e) Company Material Adverse Effect. There shall not have occurred a Company Material Adverse Effect.

(f) Third Party Consents. Seller shall have obtained the consents and approvals required from third parties on Schedule 10.2(f), and all such consents and approvals shall be in full force and effect.

(g) Financial Statements. Seller shall have furnished, or caused to be furnished, to Buyer (i) unaudited or, to the extent they have been prepared, audited financial statements of the Company and the Company Sub for the year ended December 31, 2022, and in the case of audited financials, prepared by a nationally or regionally recognized auditor, together with such auditor's report, and (ii) financial statements of the Company and the Company Sub as of the most recent quarter end period.

(h) Deliverables. Seller shall have delivered or caused to be delivered to Buyer all of the items required by Section 3.3(a).

(i) Conversion. At least one day prior the Closing Date, Seller and the Company shall have completed the Conversion in accordance with Section 7.2.

Section 10.3 Conditions of Seller. The obligations of Seller to consummate the Transactions shall be subject to the fulfillment or waiver in writing by Seller of, at or prior to the Closing, the following conditions:

(a) Accuracy of Representations and Warranties and Performance of Covenants. The representations and warranties contained in Section 6.1 (Due Organization and Authority), Section 6.2 (Conflicts; Non-contravention) and Section 6.5 (Brokers' Fees) (collectively, the "Buyer Fundamental Representations") will be true and correct in all respects as if made on the Signing Date and the Closing Date except for (i) changes specifically permitted by this Agreement, and (ii) those representations and warranties that address matters only as of a particular date need only be true and correct in all respects as of such date. The representations and warranties contained in Article VI (other than the Buyer Fundamental Representations) shall be true and correct in all respects, in each case as if made on and as of the Signing Date and the Closing Date, except for (i) changes specifically permitted by this Agreement, (ii) those

representations and warranties that address matters only as of a particular date need only be true and correct in all respects as of such date, and (iii) those instances (including in (i) and (ii)) in which the failure of the representations and warranties to be true and correct would not have a Buyer Material Adverse Effect.

(b) Covenants. Buyer shall have performed in all material respects all of the obligations and complied in all material respects with all of its covenants, agreements and conditions set forth in this Agreement or any other Ancillary Agreement and required to be performed or complied with by Buyer at or prior to the Closing.

(c) Deliverables. Buyer shall have delivered or caused to be delivered to Seller all of the items required by Section 3.3(b).

Section 10.4 Frustration of Closing Conditions. Neither Buyer nor Seller may rely, either as a basis for not consummating the Transactions or terminating this Agreement, on the failure of any condition set forth in Sections 10.1, 10.2 or 10.3, as the case may be, to be satisfied if such failure was caused by such party's breach of any provision of this Agreement.

## ARTICLE XI

### TERMINATION

Section 11.1 Termination Rights. This Agreement may be terminated and the Transactions abandoned at any time prior to the Closing:

(a) by mutual written consent of each of Buyer, on the one hand, and Seller and the Company, on the other hand;

(b) by Seller, by written notice to Buyer, if Buyer materially breaches any of its representations or warranties under this Agreement or Buyer fails to materially comply with any of its covenants or obligations contained herein, in each case such that Section 10.3(a) or Section 10.3(b) would not be satisfied, and, in both cases, such failure to comply or breach is not cured (to the extent curable) by Buyer within ten (10) days after delivery of notice thereof by Seller; provided, however, that no cure period will be allowed for any such breach that by its nature cannot be cured or if, as a result of such breach and notwithstanding the timely cure thereof, one or more conditions to Seller's obligations to consummate the Transactions would not be satisfied at or prior to the Outside Date; provided, further, that Seller shall not have the right to terminate this Agreement pursuant to this Section 11.1(b) if Seller or the Company is then in material breach of its representations or warranties or in material default under its covenants or obligations hereunder in a manner that shall have directly contributed to the failure of the Closing;

(c) by Buyer, by written notice to Seller, if Seller or the Company materially breaches any of its representations or warranties under this Agreement or Seller or the Company fails to materially comply with any of its covenants or obligations contained herein, in each case such that Section 10.2(a) or Section 10.2(b) would not be satisfied, and, in both cases, such failure to comply or breach is not cured (to the extent curable) by Seller or the Company within ten (10) days after delivery of notice thereof by Buyer; provided, however, that no cure period will be allowed for any such breach that by its nature cannot be cured or if, as a result of such breach

and notwithstanding the timely cure thereof, one or more conditions to Buyer's obligations to consummate the Transactions would not be satisfied at or prior to the Outside Date; provided, further, that Buyer shall not have the right to terminate this Agreement pursuant to this Section 11.1(c) if it is then in material breach of its representations or warranties or in material default under its covenants or obligations hereunder in a manner that shall have directly contributed to the failure of the Closing.

(d) by Buyer, by written notice to Seller, if any Agency or Governmental Entity which must grant a Required Approval and Filing shall have denied such Required Approval and Filing and such denial has become final and non-appealable;

(e) at any time after October 31, 2023 (the "Outside Date"), by either Seller or Buyer, by written notice to the other, if the Closing has not occurred, unless the failure to consummate the Closing is the result of a breach of this Agreement by the Party (or the Company with respect to Seller) seeking to terminate this Agreement of its representations, warranties or covenants under this Agreement; provided, that if on the Outside Date, all conditions to Closing have been met except for the receipt of any Required Approval and Filing, the Outside Date shall automatically be extended to April 30, 2024 without any further action by any other Party or any other Person; or

(f) by either Buyer or Seller if a court of competent jurisdiction shall have issued a final non-appealable Order permanently enjoining, restraining or otherwise prohibiting the Transactions.

**Section 11.2 Effect of Termination.** In the event of termination and abandonment by a Party pursuant to Section 11.1, written notice thereof shall forthwith be given to any other Party and this Agreement shall terminate and the Transactions shall be abandoned, without further action by any party. If this Agreement is terminated as provided herein, no party shall have any Liability or further obligation to any other party except that this Section 11.2, Section 7.5 and Article XIII shall survive termination of this Agreement, and the definitions set forth in Article I shall survive any termination of this Agreement; provided, however, that no termination of this Agreement pursuant to this Article XI shall relieve any Party of Liability for a breach of any provision of this Agreement occurring before such termination.

### **Section 11.3 Termination Fees.**

(a) In the event of the termination of this Agreement by Seller pursuant to Section 11.1(b), Buyer shall pay to Seller the Buyer Breach Termination Fee by wire transfer of immediately available funds.

(b) In the event of the termination of this Agreement by Buyer pursuant to Section 11.1(c), Seller shall pay to Buyer the Seller Breach Termination Fee by wire transfer of immediately available funds.

(c) In the event of the termination of this Agreement by Seller pursuant to Section 11.1(e) or Section 11.1(f), (i) Seller shall pay to Buyer the Seller No-Fault Termination Fee by wire transfer of immediately available funds and (ii) Buyer shall pay to Seller, by wire transfer of immediately available funds, the absolute value of the amount, if any, by which the

aggregate Earnings during the period commencing on October 1, 2022 and ending on the date of termination of this Agreement are less than zero dollars (\$0).

(d) In the event of the termination of this Agreement by Buyer pursuant to Section 11.1(d), Section 11.1(e) or Section 11.1(f), (i) Buyer shall pay to Seller the Buyer No-Fault Termination Fee by wire transfer of immediately available funds and (ii) Seller shall pay to Buyer, by wire transfer of immediately available funds, the amount, if any, by which the aggregate Earnings during the period commencing on October 1, 2022 and ending on the date of termination of this Agreement are greater than zero dollars (\$0).

(e) Any fees payable pursuant to this Section 11.3, excluding the Post-Termination Operating Costs, shall be paid by wire transfer of immediately available funds within ten (10) Business Days of the date of termination. The Post-Termination Operating Costs shall be paid by Buyer to Seller by wire transfer of immediately available funds within ten (10) Business Days of final determination of the amount of such Post-Termination Operating Costs, which for the avoidance of doubt, shall be on or after the four (4) month anniversary of such date of termination. The payment by Buyer or Seller, as applicable, of any fees pursuant to this Section 11.3 shall be the sole and exclusive remedy available to the other Party, or to the Company, as applicable, (whether at law, in equity, in contract, in tort or otherwise) with respect to this Agreement, the Ancillary Agreement and the Transactions. The Parties further agree that any payment by one Party to the other of fees pursuant to this Section 11.3 shall constitute liquidated damages and not a penalty. For the avoidance of doubt, in the event that any such fees are paid, no Person may seek specific performance under this Agreement.

## **ARTICLE XII**

### **INDEMNIFICATION**

Section 12.1 Survival. All representations and warranties contained in this Agreement and all claims with respect thereto shall terminate upon the twenty four (24) month anniversary of the Closing Date; provided, however, that (a) the Buyer Fundamental Representations and the Seller Fundamental Representations shall survive for a period of twenty (20) years following the Closing Date and (b) the representations and warranties set forth in Section 5.11 (Tax Matters) and Section 5.15 (Employment Matters; Employee Benefits) shall survive until the expiration of the applicable statute of limitations (taking into account extensions thereof). All claims by Buyer or a Buyer Indemnitee pursuant to Section 12.2(a)(ii) related to covenants and agreements made in this Agreement that (a) contemplate performance for a stated term, shall survive the Closing and expire six (6) months after the end of such stated term, or (b) do not have a stated term shall survive the Closing until sixty (60) days following the date on which such covenant or agreement has been fully performed in accordance with its terms. All claims by Buyer or a Buyer Indemnitee pursuant to Section 12.2(a)(iii) shall survive for a period of twenty (20) years following the Closing Date. In the event that notice of any claim for indemnification under this Article XII has been given within the applicable survival period, the matters that are the subject of such indemnification claim (and the right to pursue such claim) shall survive with respect to such claim until such time as such claim is finally resolved. It is the intention of the Parties that the survival periods and termination

dates set forth in this Section 12.1 supersede any statute of limitations applicable to such matters or any claim with respect thereof.

### Section 12.2 Indemnification of the Buyer Indemnitees.

(a) From and after the Closing and subject to the terms and conditions of this Article XII, the Buyer Indemnitees will be entitled to recovery, and Seller shall indemnify, defend and hold the Buyer Indemnitees harmless from, against and in respect of any and all Losses imposed on, sustained, incurred or suffered by any Buyer Indemnitee that result from or arise out of:

- (i) any breach or inaccuracy of any representation or warranty made by Seller in this Agreement or the certificate delivered by Seller pursuant to Section 3.3(a)(i) of this Agreement;
- (ii) the breach of any covenant or other agreement made by Seller in this Agreement; and
- (iii) the Excluded Liabilities.

(b) Notwithstanding anything to the contrary contained in this Agreement:  
(i) (A) Seller shall have no Liability for any claim for indemnification pursuant to Section 12.2(a)(i) unless the aggregate amount of Losses in respect of breaches of Seller's representations and warranties exceeds the Deductible, in which event Seller shall be liable for all Losses in excess of the Deductible up to the Cap, and (B) Seller's aggregate Liability for indemnification under Section 12.2(a)(i) shall in no event exceed the Cap. Notwithstanding the foregoing, the Deductible and Cap shall not apply to Seller's indemnification obligations (1) arising out of, relating to or resulting from fraud or willful misconduct by Seller with respect to Seller's representations and warranties set forth in this Agreement or (2) arising out of, relating to or resulting from a breach or inaccuracy of a Seller Fundamental Representation, and none of the foregoing shall count towards the Deductible or the Cap.

(c) Buyer shall be entitled to, at its election and in its sole discretion, (i) recover all Losses agreed by Seller or deemed by a court of competent jurisdiction to be recoverable pursuant to Section 12.2 ("Seller Indemnifiable Losses") directly from Seller and/or (ii) deduct and offset any Seller Indemnifiable Losses against any payments owing to Seller pursuant to this Agreement.

### Section 12.3 Indemnification of the Seller Indemnitees.

(a) From and after the Closing and subject to the terms and conditions of this Article XII, the Seller Indemnitees will be entitled to recovery, and Buyer shall indemnify, defend and hold the Seller Indemnitees harmless from, against and in respect of any and all Losses imposed on, sustained, incurred or suffered by any Buyer Indemnitee that result from or arise out of:

(i) any breach or inaccuracy of any representation or warranty made by Buyer in this Agreement or the certificate delivered by Buyer pursuant to Section 3.3(b)(i) of this Agreement;

(ii) the breach of any covenant or agreement made by Buyer in this Agreement; and

(iii) any Liability of the Business, the Company or the Company Sub arising out of an occurrence or omission after the Closing Date and resulting from the ownership, operation or control of the Business after the Closing Date, except to the extent such Liability, but for any action or omission by Seller, would have arisen on or prior to the Closing Date or resulted from Seller's ownership, operation or control of the Business.

(b) Notwithstanding anything to the contrary contained in this Agreement:

(i) Buyer shall have no Liability for any claim for indemnification pursuant to Section 12.3(a)(i) unless the aggregate amount of Losses in respect of breaches of Buyer's representations and warranties exceeds the Deductible, in which event Buyer shall be liable for all Losses in excess of the Deductible up to the Cap; and (ii) Buyer's aggregate Liability for indemnification under Section 12.3(a)(i) shall in no event exceed the Cap. Notwithstanding the foregoing, the Deductible and Cap shall not apply to Buyer's indemnification obligations (A) arising out of, relating to or resulting from fraud or willful misconduct by Buyer with respect to Buyer's representations and warranties set forth in this Agreement or (B) arising out of, relating to or resulting from a breach or inaccuracy of a Buyer Fundamental Representation, and none of the foregoing shall count towards the Deductible or the Cap.

**Section 12.4 Procedures.** The following procedures shall apply to all claims for indemnification and reimbursement pursuant to this Article XII, other than those relating to Tax matters, which are governed by Section 9.7.

(a) Notice of Losses. Subject to the limitations set forth in this Agreement, if any Buyer Indemnitee or Seller Indemnitee believes in good faith that it has a claim for recovery or reimbursement under this Article XII (a "Claim"), Buyer or Seller, as applicable, shall, promptly after it becomes aware of such Claim but in any event prior to the expiration of the applicable survival period for such Claim as set forth in Section 12.1, notify the other Party of such Claim by means of a written notice describing the matter in reasonable detail (to the extent known) and setting forth the amount (estimated, if necessary and to the extent feasible) of such Claim (a "Claim Notice"). The failure by Buyer or Seller, as applicable, to promptly deliver a Claim Notice under this Section 12.4(a) will not adversely affect the applicable Buyer Indemnitee's or Seller Indemnitee's right to recovery or reimbursement except to the extent that Indemnifying Party is materially prejudiced thereby.

(b) No Disputes. If the party seeking indemnification, recovery or reimbursement, as applicable, hereunder (the "Indemnified Party") delivers a Claim Notice in accordance with the terms in Section 12.4(a), as applicable, and the party against whom indemnification or reimbursement, as applicable, may be sought hereunder (the "Indemnifying Party") does not object to the terms of the Claim as set forth in the applicable Claim Notice, subject to the limitations set forth in this Article XII, the Indemnifying Party shall promptly pay to the

Indemnified Party the amount set forth in such Claim Notice in accordance with the terms of this Article XII.

(c) Disputes. If the Indemnifying Party objects to the terms of the Claim as set forth in the applicable Claim Notice, the Indemnifying Party may dispute the related Claim by delivery of a notice to the Indemnified Party in writing, within thirty (30) days following the Indemnified Party's delivery of such Claim Notice, that the Indemnifying Party objects to the Claim (or the amount of Losses set forth therein) asserted in such Claim Notice. Thereafter, any disputes not settled by the parties shall be resolved by a court of competent jurisdiction described in Section 13.8.

#### Section 12.5 Third-Party Claims.

(a) In the event of any claim by a third party against any Buyer Indemnitee or Seller Indemnitee for which indemnification, recovery or reimbursement is available under this Article XII (a "Third-Party Claim"), the Indemnifying Party will have the right to defend the Third-Party Claim with counsel (at its sole cost and expense) reasonably satisfactory to the Indemnified Party and the Indemnified Party shall cooperate in good faith in such defense, including by using commercially reasonable efforts to mitigate such indemnifiable Losses and provide assistance to the Indemnifying Party to pursue any available remedies against other parties to recover or reduce such Losses; provided, that any costs of such assistance or mitigation incurred by the Indemnified Party shall be considered additional indemnifiable Losses hereunder and that the failure of the Indemnified Party to mitigate pursuant to the terms hereof shall not reduce the rights of the Indemnified Party to recover for Losses; provided, further, that the Indemnifying Party shall have the right to defend the Third-Party Claim only to the extent such Indemnifying Party first acknowledges in writing its indemnification obligation under and subject to this Article XII; provided, further, however, that the Indemnifying Party shall not have the right to assume the defense of any Third-Party Claim if (i) the Indemnified Party shall have one or more legal or equitable defenses available to it which are different from or in addition to those available to the Indemnifying Party, and, in the reasonable opinion of the Indemnified Party, counsel for the Indemnifying Party could not adequately represent the interests of the Indemnified Party because such interests could be in conflict with those of the Indemnifying Party; (ii) such Third-Party Claim is reasonably likely, in the reasonable judgment of the Indemnified Party, to have a material effect on the Indemnified Party or the Business or involve Losses beyond the scope or limits of the indemnification obligation of the Indemnifying Party; or (iii) the Indemnifying Party shall not have assumed the defense of the litigation in a timely fashion (but in any event within thirty (30) days of notice of such Third-Party Claim). The Indemnifying Party will keep the Indemnified Party apprised of all material developments, including settlement offers, with respect to the Third-Party Claim.

(b) Notwithstanding the foregoing, (i) the Indemnified Party shall have the right to independently control and assume the defense of any Third-Party Claim to the extent (A) the Indemnifying Party fails to assume the defense of such Third-Party Claim within thirty (30) days of notice of such Third-Party Claim or (B) such the Indemnifying Party does not have the right to assume the defense of such Third-Party Claim pursuant to Section 12.5 and (ii) the Indemnified Party shall have the right to participate jointly with the Indemnifying Party (at the Indemnified Party's sole cost and expense) in the defense of any Third-Party Claim. In the event

that the Indemnified Party elects pursuant to clause (ii) to participate jointly with the Indemnifying Party in the defense of a Third-Party Claim, each party shall keep the other party reasonably informed of, and consult with the other party regarding, any material decisions with respect to the defense of the Third-Party Claim.

(c) No Indemnifying Party may settle or compromise any claim or consent to the entry of any judgment with respect to which indemnification or recovery is being sought hereunder without the prior written consent of the Indemnified Party, unless such settlement, compromise or consent (w) includes an unconditional release of the Indemnified Party and its officers, directors, employees and Affiliates from all Liability arising out of such claim, (x) does not contain any admission or statement suggesting any wrongdoing or Liability on behalf of the Indemnified Party, (y) does not contain any equitable order, judgment or term that in any manner affects, restrains or interferes with the business of the Indemnified Party or any of the Indemnified Party's Affiliates and (z) does not provide for or otherwise require any payment by the Indemnified Party or any of its Affiliates that is not fully covered by the indemnification obligations of the Indemnifying Party.

Section 12.6 Attorneys' Fees and Expenses. If any party to this Agreement shall bring suit against another party as a result of any alleged breach or failure by the other party to fulfill or perform any covenants or obligations under this Agreement, then the prevailing party in such action shall be entitled to receive from the other party reasonable attorneys' fees incurred by reason of such action and all costs of suit at both trial and appellate levels.

Section 12.7 Other Recovery and Indemnification Matters.

(a) The right to recovery, indemnification, payment of any amount related to Losses or other remedy based on such representations, warranties, covenants, and obligations will not be affected by any investigation conducted by any Party or its representatives with respect to, or any knowledge acquired (or capable of being acquired) at any time, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant or obligation. For purposes of determining the dollar amount of Losses attributable to such breach, all qualifications or exceptions in any representation or warranty relating to or referring to the terms "material," "in all material respects," "Material Adverse Effect" or any similar term or phrase shall be disregarded.

(b) The Parties agree to treat any recovery or indemnity payments made pursuant to Article IX or this Article XII as an adjustment to the Purchase Price for all Tax purposes, except to the extent otherwise required under Applicable Law.

(c) The amount of any Losses payable in accordance with this Article XII shall be calculated net of any third-party insurance, indemnification or other proceeds that have actually been recovered by the Indemnified Party under any insurance policy or other contract, agreement or undertaking in connection with the facts giving rise to the right of indemnification (net of any applicable collection costs and reserves, deductibles, premium adjustments and retrospectively rated premiums), it being understood that an Indemnified Party shall not be obligated to obtain or maintain any type of insurance coverage or initiate any Proceeding in order to obtain recovery under insurance policies with respect to any particular indemnifiable matter. Any amounts payable

pursuant to this Article XII shall be paid without duplication, and in no event shall any Person be indemnified under different provisions of this Agreement or any Ancillary Agreement for the same Loss. To the extent any Party receives proceeds or otherwise recovers amounts from a third party after receiving indemnification amounts under this Article XII that would have reduced its Losses or that is duplicative of its Losses or indemnification amounts received, such Party shall pay such excess or duplicative amounts over to the other Party as soon as practicable upon receipt of such funds.

Section 12.8 Exclusive Remedy. Notwithstanding anything contained in this Agreement to the contrary, except with respect to fraud or willful misconduct, the Parties agree that, from and after the Closing, the sole and exclusive remedies of the Parties to this Agreement and the Buyer Indemnitees and the Seller Indemnitees, respectively, to each other, for any Losses (including any Losses from claims for breach of contract, warranty, tortious conduct (including negligence) or otherwise and whether predicated on common law, equity, statute, strict liability, or otherwise) arising out of or based upon (i) misrepresentations, breach of warranties or breach of covenants contained in this Agreement, (ii) the matters set forth in this Agreement or (iii) the Transactions are the indemnification obligations of the Parties set forth in this Article XII. The provisions of this Section 12.8 shall not, however, prevent or limit a cause of action under Section 13.10 to obtain an injunction or injunctions to prevent breaches of this Agreement or the Ancillary Agreements and to enforce specifically the terms and provisions hereof or thereof. For the avoidance of doubt, nothing herein shall limit the Buyer's, Seller's or other Indemnified Party's rights under Section 2.3 or any claims or rights under any Ancillary Agreement.

## **ARTICLE XIII**

### **MISCELLANEOUS**

Section 13.1 Press Releases and Public Announcements. Except as set forth in this Section 13.1, the Parties shall not issue any report, statement or press release or otherwise make any other public statement with respect to this Agreement and the Transactions without prior consultation with and written approval of the other Parties. Notwithstanding the foregoing, the Parties acknowledge that Buyer may prepare and file with the United States Securities and Exchange Commission all required disclosures related to this Agreement or any Ancillary Agreement, including without limitation Buyer's entry into this Agreement, the Agreement itself and the closing of the Transactions.

Section 13.2 No Third-Party Beneficiaries. Except (a) the current and former officers and directors of the Company and the Company Sub pursuant to Section 8.4, (b) as provided in Article XII with respect to the Buyer Indemnitees and the Seller Indemnitees and (c) as provided in Section 13.16, this Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

Section 13.3 Entire Agreement. This Agreement (including the exhibits, annexes and other documents referred to herein including the Confidentiality Agreement), the disclosure schedules, and the Ancillary Agreements constitute the entire agreement among the Parties and supersede any prior understandings, agreements, or representations by or among the Parties, written or oral, to

the extent they relate in any way to the subject matter hereof (other than the Confidentiality Agreement).

**Section 13.4 Succession and Assignment.** This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of Buyer and Seller; provided, however, that Buyer may: (a) assign any or all of its rights and interests hereunder to one or more of its Affiliates and designate one or more of its Affiliates to perform its obligations hereunder; (b) assign its rights under this Agreement for collateral security purposes to any lenders providing financing to Buyer or any of its Subsidiaries or Affiliates; or (c) assign its rights under this Agreement to any Person that acquires the Company or any of its assets; provided, that in each of clauses (a), (b) and (c), Buyer nonetheless shall remain responsible for the performance of all of its obligations hereunder.

**Section 13.5 Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile, scanned PDF pages, DocuSign or any other electronic signature complying with the U.S. federal ESIGN Act of 2000 or the Electronic Signatures and Records Act of the State of New York shall each be deemed an original and shall be effective as delivery of a manually executed counterpart to this Agreement, all of which will be considered one and the same agreement and will become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Parties, it being understood that all Parties need not sign the same counterpart.

**Section 13.6 Headings.** The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

**Section 13.7 Notices.** All notices, requests, demands, claims and other communications hereunder will be in writing to the addresses set forth below. Any notice, request, demand, claim or other communication hereunder shall be deemed duly given: (a) when delivered personally to the recipient, (b) when sent by electronic mail or facsimile without notice of delivery failure, (i) if sent during the recipient's normal business hours, on the date of transmission to such recipient or (ii) if sent outside of the recipient's normal business hours, on the first Business Day following the date of transmission to such recipient, (c) one (1) Business Day after being sent to the recipient by reputable overnight courier service (charges prepaid) or (d) four (4) Business Days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth on the signature pages hereto. Any Party may change the address to which notices, requests, demands, claims and other communications hereunder are to be delivered by giving the other Parties notice in the manner herein set forth.

If to Seller or, prior to the Closing, the Company:

Freedom Mortgage Corporation  
951 Yamato Road  
Boca Raton, FL 33431  
Attn: Steven J. Molitor

Email: steven.molitor@freedommortgage.com

and

RoundPoint Mortgage Servicing Corporation  
951 Yamato Road  
Boca Raton, FL 33431  
Attn: Patrick McEnerney  
Email: patrick.mcenerney@roundpointmortgage.com

With a required copy to:

Hunton Andrews Kurth LLP  
951 E. Byrd Street  
Richmond, VA 23219  
Attn: Michael P. Goldman  
Email: mgoldman@hunton.com

If to Buyer or, after the Closing, the Company:

Matrix Financial Services Corporation  
c/o Two Harbors Investment Corp.  
1601 Utica Avenue South, Suite 900  
St. Louis Park, Minnesota 55416  
Attn: Rebecca Sandberg, General Counsel  
Email: Rebecca.Sandberg@twoharborsinvestment.com

With a required copy to:

Cadwalader, Wickersham & Taft LLP  
200 Liberty Street  
New York, New York 10281  
Attn: Braden K. McCurrach  
Chris M. Gavin  
Email: Braden.MCCurrach@cwt.com  
Chris.Gavin@cwt.com

#### Section 13.8 Governing Law; Jurisdiction and Venue.

(a) This Agreement shall be governed by and construed in accordance with the domestic substantive and procedural laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule that would cause the application of the Applicable Laws of any jurisdiction other than the State of Delaware.

(b) Except with respect to the resolution of Purchase Price adjustments as set forth in Section 2.2, each Party agrees: (a) to submit to the exclusive jurisdiction of the state courts

located in the Court of Chancery of the State of Delaware (or if such court declines to accept jurisdiction over a particular matter, any state or federal court within the state of Delaware) (the “Specified Courts”) for any Proceeding arising out of or relating to this Agreement or any Ancillary Agreement or the Transactions); (b) to commence any Proceeding arising out of or relating to this Agreement or any Ancillary Agreement or the transactions contemplated by this Agreement or any Ancillary Agreement only in the Specified Courts; (c) that service of any process, summons, notice or document by U.S. registered mail to the address of such Party set forth in Section 13.7 will be effective service of process for any Proceeding brought against such Party in any of the Specified Courts; (d) to waive any objection to the laying of venue of any Proceeding arising out of or relating to this Agreement or any Ancillary Agreement or the Transactions in the Specified Courts; and (e) to waive and not to plead or claim that any such Proceeding brought in any of the Specified Courts has been brought in an inconvenient forum.

**Section 13.9 Amendments and Waivers.** No amendment, modification or supplement of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and Seller. No waiver by any Party of any provision of this Agreement or any default, misrepresentation or breach of warranty or covenant hereunder, whether intentional or not, shall be valid unless the same shall be in writing and signed by the Party making such waiver nor shall such waiver be deemed to extend to any prior or subsequent default, misrepresentation or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

**Section 13.10 Injunctive Relief.** Each Party hereby agrees that in the event of breach of this Agreement damages would be difficult, if not impossible, to ascertain, that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that, in addition to and without limiting any other remedy or right it may have, each Party shall be entitled to seek an injunction or other equitable relief in any court of competent jurisdiction, without any necessity of proving damages or any requirement for the posting of a bond or other security, enjoining any such breach and enforcing specifically the terms and provisions. Each Party hereby waives any and all defenses they may have on the ground of lack of jurisdiction or competence of the court to grant such an injunction or other equitable relief. In addition, each Party agrees that it will not oppose the granting of an injunction, specific performance and other equitable relief on the basis that any other Party has an adequate remedy at law or that any award of specific performance is not an appropriate remedy for any reason at law or in equity.

**Section 13.11 Severability.** If any term or other provision of this Agreement for any reason is declared invalid, illegal or unenforceable, such decision shall not affect the validity or enforceability of any of the other provisions of this Agreement, which other provisions shall remain in full force and effect and the application of such invalid or unenforceable provision to Persons or circumstances other than those as to which it is held invalid, illegal or unenforceable shall be valid and be enforced to the fullest extent permitted by Applicable Law. Upon such declaration that any term or other provision is invalid, illegal or incapable of being enforced, the parties to this Agreement shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that

the transactions contemplated by this Agreement be consummated as originally contemplated to the greatest extent possible.

Section 13.12 Expenses. Except as otherwise provided herein, each Party will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the Transactions; provided, that all Transaction Expenses incurred by Seller and/or the Company which are unpaid as of the Closing Date shall be borne by Seller (including any Transaction Expenses incurred during the Pre-Closing Period) in accordance with the terms of this Agreement.

Section 13.13 Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. The word “including” shall mean including without limitation. When this Agreement states that a Party has “made available,” “delivered” or “provided” (or terms of similar import) a particular document or other item, it shall mean that such Party has made a correct and complete copy of such document or item (together with all amendments, supplements or other modifications thereto or waivers thereof) available for viewing by the Buyer and its Representatives in the Dataroom on or prior to the Signing Date and not removed such document or item on or prior to the Signing Date. An item arising with respect to a specific representation or warranty shall be deemed to be “reflected” or “disclosed” on or “reserved against” a balance sheet or financial statements, to the extent (A) there is a reserve, accrual or other similar item underlying a number on such balance sheet or financial statement that is specifically related to the subject matter of such item, (B) such item is otherwise specifically set forth on the balance sheet or financial statement or (C) such item is reflected on the balance sheet or financial statement and is referred to in the notes thereto.

Section 13.14 Incorporation of Disclosure Schedules. The schedules and exhibits identified in this Agreement are incorporated herein by reference and made a part hereof. Nothing in the disclosure schedules shall be deemed adequate to disclose an exception to a representation or warranty made herein unless the schedule identifies the exception with particularity on its face.

Section 13.15 Waiver of Jury Trial. EACH OF THE PARTIES WAIVES THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OR RELATED TO THIS AGREEMENT OR ANY ANCILLARY AGREEMENT IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY AFFILIATE OF ANY OTHER SUCH PARTY, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS OR OTHERWISE. THE PARTIES AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION 13.15 AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR ANY PROVISION HEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS,

## SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND ANY ANCILLARY AGREEMENTS.

**Section 13.16 Mutual Release.** Effective as of the Closing, the Company and the Company Sub, and each of their respective officers, directors, agents, employees, managers and advisors, successors and assigns, on the one hand (each a “Company Releasor”), and Seller, on behalf of itself and its Affiliates and Subsidiaries (other than the Company and the Company Sub), and each of its and their respective officers, directors, agents, employees, managers and advisors, on the other hand (each, a “Seller Releasor”) hereby irrevocably, unconditionally, knowingly and voluntarily releases, discharges and forever waives and relinquishes all claims, demands, obligations, Liabilities, defenses, affirmative defenses, setoffs, counterclaims, actions and causes of action of whatever kind or nature, whether known or unknown, which such Person has, may have or might have or may assert now or in the future, in the case of any Seller Releasor, against the Company, the Company Sub and their respective successors, assigns, heirs, executors, officers, directors, partners and employees or, in the case of any Company Releasor, against Seller and its successors, assigns, heirs, executors, officers, directors, partners and employees, in each case arising out of, based upon or resulting from any Contract, transaction, event, circumstance, action, failure to act or occurrence of any sort or type, whether known or unknown, and which occurred, existed, was taken, permitted or began on or before the Closing Date. The foregoing release shall not apply to any claim arising under the terms of this Agreement or any Ancillary Agreement. The Parties shall, and shall cause each Company Releasor or Seller Releasor, as applicable, to refrain from, directly or indirectly, asserting any claim or demand or commencing, instituting or causing to be commenced, any legal proceeding of any kind against any released Person based upon any matter released pursuant to this Section 13.16. The Parties hereby acknowledge and agree that (i) each released Person is a third-party beneficiary of this Section 13.16 and (ii) the execution of this Agreement shall not constitute an acknowledgment of or an admission by any Company Releasor or Seller Releasor of the existence of any such claims or of liability for any matter or precedent upon which any liability may be asserted.

## Section 13.17 Counsel.

(a) It is acknowledged by each of the parties hereto that Seller, the Company and their Affiliates have retained Hunton Andrews Kurth LLP (the “Existing Counsel”) to act as their counsel in connection with the Transaction, that the Existing Counsel has not acted as counsel for any other party to this Agreement or other Person in connection with the Transactions and that no other party to this Agreement or other Person has the status of a client of the Existing Counsel for conflict of interest or any other purposes as a result thereof. Buyer and the Company, on behalf of themselves and each of their respective Affiliates, hereby acknowledge and agree, and the Company (for itself and on behalf of its Affiliates) affirms its pre-existing agreement, that, in the event that a dispute arises between Buyer or any of its Affiliates (including, after the Closing, the Company or any of its Subsidiaries), on the one hand, and Seller or any of its Affiliates (or any of their employees), on the other hand (hereafter, “Disputes”), the Existing Counsel may disclose information learned by the Existing Counsel in the course of such existing representations (except to the extent such information is subject to the attorney-client privilege of the Company or any of its Affiliates and/or Existing Counsel’s duty of confidentiality as to the Company or any of its Affiliates, and whether such disclosure is made before or after the Closing) and may represent Seller or any of its Affiliates (or any of their employees) in such Disputes even though the interests

of Seller or its Affiliates (or any of their employees) may be directly adverse to Buyer, the Company or any of their Affiliates, and even though the Existing Counsel may have acquired confidential information from or about the Company or any of its Affiliates related to any Disputes, represented the Company or any of its Affiliates in a matter substantially related to such Disputes, or may be handling ongoing matters for Seller or one or more of their Affiliates (or any of their employees). Buyer and the Company hereby consent to and waive, on behalf of themselves and each of their respective Affiliates, any conflict of interest in connection with representation by Existing Counsel of Seller or any of its Affiliates (or any of their employees) in connection with any Disputes related to the Transactions. Moreover, Buyer and the Company, on behalf of themselves and each of their respective Affiliates, agree and covenant not to seek to disqualify the Existing Counsel from representing Seller or any of its Affiliates (or any of their employees) in connection with any Disputes related to the Transactions.

(b) Buyer and the Company, on behalf of themselves and each of their respective Affiliates, hereby acknowledge and agree, and the Company (for itself and on behalf of its Affiliates) affirms its pre-existing agreement, that Seller owns all legal files (whether those files are with in-house Existing Counsel or outside Existing Counsel), any attorney-client privilege, any attorney-work product protections, any duties of confidentiality and all rights to assert or waive any privilege or protection associated with the Existing Counsel's pre-Closing representation of the Company and its Affiliates, in each case solely to the extent that such representations relate to the Transactions, whether separately or jointly with Seller or its Affiliates ("Seller Privileged Material"). Notwithstanding anything else contained in this Agreement or in any other agreements executed in connection with the Transactions, ownership of such Seller Privileged Material and the right to assert or waive such privilege or protection or duty shall not pass to or be claimed by Buyer, the Company, or any of their Affiliates and all of the same (and all of the rights with respect to the same) are hereby irrevocably assigned and transferred to and accepted and controlled by Seller. Neither Buyer, the Company nor any of their Affiliates may use or rely on any Seller Privileged Material in any Dispute, including the disclosure or discovery of such information subsequent to the Closing shall not be deemed to be a waiver of any duty of confidentiality, attorney-client privilege or any attorney-client work product protection. If, after the Closing, the Company or Buyer discover possession of any Seller Privileged Material, the Company and Buyer shall treat them as inadvertently produced and take steps to notify Seller for instructions regarding transfer or disposal of such items. Buyer and the Company, on behalf of themselves and each of their respective Affiliates, hereby acknowledge and agree, and the Company (for itself and on behalf of its Affiliates) affirms its pre-existing agreement, not to disclose and to protect from disclosure to any other Person, and will strictly preserve the confidentiality of, all Seller Privileged Material in order to preserve all privileges, work-product protections and confidentiality with respect to all such communications and materials. In the event that a dispute arises between Buyer, the Company or any of their Affiliates and any other Person (other than Seller and its Affiliates), Buyer and the Company shall, and shall cause their Affiliates to, with respect to any Seller Privileged Material, assert the attorney-client privilege on behalf of Seller (and any one or more of its Affiliates, as relevant) to prevent disclosure of such Seller Privileged Material to any such Person; provided, however, that such privilege may be waived only with the prior written consent of Seller (and any one or more of its Affiliates, as relevant).

(c) Buyer and the Company agree not to take or cause their Affiliates to take positions contrary to the intent of this Section 13.17. Buyer and the Company hereby acknowledge

that each of them have discussed with their respective counsel and obtained adequate information concerning the relevant implications, advantages and risks of the waivers and provisions of this Section 13.17. Seller, Buyer and the Company further agree that each Existing Counsel and its partners and employees are third-party beneficiaries of this Section 13.17.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

**BUYER:**

MATRIX FINANCIAL SERVICES  
CORPORATION

By: /s/ William Greenberg  
Name: William Greenberg  
Title: President and Chief Executive Officer

**SELLER:**

FREEDOM MORTGAGE CORPORATION

By: /s/ Stanley C. Middleman  
Name: Stanley C. Middleman  
Title: President and CEO

**COMPANY:**

ROUNDPOINT MORTGAGE SERVICING  
CORPORATION

By: /s/ Patrick McEnerney  
Name: Patrick McEnerney  
Title: CEO



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

I, William Greenberg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Two Harbors Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

/s/ William Greenberg

William Greenberg  
President, Chief Executive Officer, and Chief Investment Officer

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

I, Mary Riskey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Two Harbors Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

/s/ Mary Riskey

Mary Riskey  
Chief Financial Officer

**CERTIFICATION**

Pursuant to 18 U.S.C. §1350, the undersigned officer of Two Harbors Investment Corp. (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the three and six months ended June 30, 2022 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 4, 2022

/s/ William Greenberg

William Greenberg  
President, Chief Executive Officer, and Chief Investment Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Quarterly Report or as a separate disclosure document.

**CERTIFICATION**

Pursuant to 18 U.S.C. §1350, the undersigned officer of Two Harbors Investment Corp. (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the three and six months ended June 30, 2022 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 4, 2022

/s/ Mary Riskey

Mary Riskey  
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Quarterly Report or as a separate disclosure document.