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 March 31, 2021

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

For the transition period from __________ to ___________

Commission File Number**: 001-35236**

ORCHID ISLAND CAPITAL

Orchid Island Capital, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

Number of shares outstanding at April 30, 2021: 94,410,960

ORCHID ISLAND CAPITAL, INC.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

		(Unaudited) March 31, 2021		December 31, 2020
ASSETS:				
Mortgage-backed securities, at fair value				
Pledged to counterparties	$	4,120,500	$	3,719,906
Unpledged		218,036		6,989
Total mortgage-backed securities		4,338,536		3,726,895
Cash and cash equivalents		211,436		220,143
Restricted cash		117,155		79,363
Accrued interest receivable		10,852		9,721
Derivative assets, at fair value		95,752		20,999
Receivable for securities sold, pledged to counterparties		154,977		414
Other assets		2,058		516
Total Assets	$	4,930,766	$	4,058,051
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Repurchase agreements	$	4,181,680	$	3,595,586
Payable for unsettled securities purchased		217,758		-
Dividends payable		6,156		4,970
Derivative liabilities, at fair value		35,057		33,227
Accrued interest payable		921		1,157
Due to affiliates		712		632
Other liabilities		22,306		7,188
Total Liabilities		4,464,590		3,642,760
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY:				
Preferred stock, $0.01 par value; 100,000,000 shares authorized; no shares issued and outstanding as of March 31, 2021 and December 31, 2020		-		-
Common Stock, $0.01 par value; 500,000,000 shares authorized, 94,410,960 shares issued and outstanding as of March 31, 2021 and 76,073,317 shares issued and outstanding as of December 31, 2020		944		761
Additional paid-in capital		512,595		432,524
Accumulated deficit		(47,363)		(17,994)
Total Stockholders' Equity		466,176		415,291
Total Liabilities and Stockholders' Equity	$	4,930,766	$	4,058,051

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020
($ in thousands, except per share data)

	Three Months Ended March 31,	
	2021	**2020**
Interest income	$ 26,856	$ 35,671
Interest expense	(1,941)	(16,523)
Net interest income	24,915	19,148
Realized losses on mortgage-backed securities	(7,397)	(28,380)
Unrealized (losses) gains on mortgage-backed securities	(88,866)	3,032
Gains (losses) on derivative and other hedging instruments	45,472	(82,858)
Net portfolio loss	(25,876)	(89,058)
Expenses:		
Management fees	1,621	1,377
Allocated overhead	404	347
Accrued incentive compensation	364	(436)
Directors' fees and liability insurance	272	260
Audit, legal and other professional fees	318	255
Direct REIT operating expenses	421	206
Other administrative	93	132
Total expenses	3,493	2,141
Net loss	$ (29,369)	$ (91,199)
Basic net loss per share	$ (0.34)	$ (1.41)
Diluted net loss per share	$ (0.34)	$ (1.41)
Weighted Average Shares Outstanding	85,344,954	64,590,205
Dividends declared per common share	$ 0.195	$ 0.240

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020
(in thousands)

	Common Stock		Additional Paid-in	Retained Earnings	
	Shares	Par Value	Capital	(Deficit)	Total
Balances, January 1, 2020	63,062	$ 631	$ 414,998	$ (20,122)	$ 395,507
Net loss	-	-	-	(91,199)	(91,199)
Cash dividends declared	-	-	(15,670)	-	(15,670)
Issuance of common stock pursuant to public offerings, net	3,171	31	19,416	-	19,447
Stock based awards and amortization	4	-	59	-	59
Balances, March 31, 2020	66,237	$ 662	$ 418,803	$ (111,321)	$ 308,144
Balances, January 1, 2021	76,073	$ 761	$ 432,524	$ (17,994)	$ 415,291
Net loss	-	-	-	(29,369)	(29,369)
Cash dividends declared	-	-	(17,226)	-	(17,226)
Issuance of common stock pursuant to public offerings, net	18,248	182	96,726	-	96,908
Stock based awards and amortization	90	1	571	-	572
Balances, March 31, 2021	94,411	$ 944	$ 512,595	$ (47,363)	$ 466,176

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020
($ in thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (29,369)	$ (91,199)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock based compensation	259	59
Realized and unrealized losses on mortgage-backed securities	96,263	25,348
Realized and unrealized (gains) losses on interest rate swaptions	(13,903)	2,589
Realized and unrealized gains on interest rate floors	(1,384)	-
Realized and unrealized (gains) losses on interest rate swaps	(30,053)	54,934
Realized (gains) losses on forward settling to-be-announced securities	(574)	7,090
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,050)	2,350
Other assets	(588)	(655)
Accrued interest payable	(236)	(7,287)
Other liabilities	5,318	(223)
Due to (from) affiliates	80	(102)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	24,763	(7,096)
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(1,764,082)	(1,334,350)
Sales	988,523	1,808,867
Principal repayments	123,880	142,259
Payments on net settlement of to-be-announced securities	(3,289)	(7,602)
Purchase of derivative financial instruments, net of margin cash received	(7,385)	(45,458)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(662,353)	563,716
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	7,517,156	13,602,710
Principal payments on repurchase agreements	(6,931,062)	(14,240,566)
Cash dividends	(16,030)	(15,416)
Proceeds from issuance of common stock, net of issuance costs	96,908	19,447
Shares withheld from employee stock awards for payment of taxes	(297)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	666,675	(633,825)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	29,085	(77,205)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period	299,506	278,655
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period	$ 328,591	$ 201,450
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 2,176	$ 23,809
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Securities acquired settled in later period	$ 217,758	$ 3,450
Securities sold settled in later period	154,977	-

See Notes to Financial Statements

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

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

On January 23, 2020, Orchid entered into an equity distribution agreement (the "January 2020 Equity Distribution Agreement") with three sales agents pursuant to which the Company could offer and sell, from time to time, up to an aggregate amount of $200,000,000 of shares of the Company's common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. The Company issued a total of 3,170,727 shares under the January 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $19.8 million, and net proceeds of approximately $19.4 million, net of commissions and fees, prior to its termination in August 2020.

On August 4, 2020, Orchid entered into an equity distribution agreement (the "August 2020 Equity Distribution Agreement") with four sales agents pursuant to which the Company may offer and sell, from time to time, up to an aggregate amount of $150,000,000 of shares of the Company's common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. Through March 31, 2021, the Company issued a total of 10,156,561 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $54.1 million, and net proceeds of approximately $53.2 million, net of commissions and fees.

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

On March 2, 2021, Orchid entered into an underwriting agreement (the "March 2021 Underwriting Agreement") with J.P. Morgan, relating to the offer and sale of 8,000,000 shares of the Company's common stock. J.P. Morgan purchased the shares of the Company's common stock from the Company pursuant to the March 2021 Underwriting Agreement at $5.45 per share. In addition, the Company granted J.P. Morgan a 30-day option to purchase up to an additional 1,200,000 shares of the Company's common stock on the same terms and conditions, which J.P. Morgan exercised in full on March 3, 2021. The closing of the offering of 9,200,000 shares of the Company's common stock occurred on March 5, 2021, with net proceeds to the Company of approximately $50.1 million, net of offering expenses.

COVID-19 Impact

Beginning in mid-March 2020, the global pandemic associated with the novel coronavirus ("COVID-19") and related economic conditions began to impact our financial position and results of operations. As a result of the economic, health and market turmoil brought about by COVID-19, the Agency RMBS market experienced severe dislocations. This resulted in falling prices of our assets and increased margin calls from our repurchase agreement lenders, resulting in material adverse effects on our results of operations and to our financial condition.

The Agency RMBS market largely stabilized after the Federal Reserve announced on March 23, 2020 that it would purchase Agency RMBS and U.S. Treasuries in the amounts needed to support smooth market functioning. As of March 31, 2021, we have timely satisfied all margin calls. The RMBS market continues to react to the pandemic and the various measures put in place to stabilize the market. To the extent the financial or mortgage markets do not respond favorably to any of these actions, or such actions do not function as intended, our business, results of operations and financial condition may continue to be materially adversely affected. Although the Company cannot estimate the length or gravity of the impact of the COVID-19 pandemic at this time, if the pandemic continues, it may continue to have materially adverse effects on the Company's results of future operations, financial position, and liquidity during 2021.

Basis of Presentation and Use of Estimates

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

The balance sheet at December 31, 2020 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates affecting the accompanying financial statements are the fair values of RMBS and derivatives. Management believes the estimates and assumptions underlying the financial statements are reasonable based on the information available as of March 31, 2021.

Variable Interest Entities ("VIEs")

We obtain interests in VIEs through our investments in mortgage-backed securities. Our interests in these VIEs are passive in nature and are not expected to result in us obtaining a controlling financial interest in these VIEs in the future. As a result, we do not consolidate these VIEs and we account for our interest in these VIEs as mortgage-backed securities. See Note 2 for additional information regarding our investments in mortgage-backed securities. Our maximum exposure to loss for these VIEs is the carrying value of the mortgage-backed securities.

Cash and Cash Equivalents and Restricted Cash

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

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

(in thousands)

	March 31, 2021	December 31, 2020
Cash and cash equivalents	$ 211,436	$ 220,143
Restricted cash	117,155	79,363
Total cash, cash equivalents and restricted cash	$ 328,591	$ 299,506

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

Mortgage-Backed Securities

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

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

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

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

Derivative and Other Hedging Instruments

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

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

Derivative and other hedging instruments are carried at fair value, and changes in fair value are recorded in earnings for each period. The Company’s derivative financial instruments are not designated as hedge accounting relationships, but rather are used as economic hedges of its portfolio assets and liabilities.

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

Financial Instruments

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

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, receivable for securities sold, other assets, due to affiliates, repurchase agreements, payable for unsettled securities purchased, accrued interest payable and other liabilities generally approximates their carrying values as of March 31, 2021 and December 31, 2020 due to the short-term nature of these financial instruments.

Repurchase Agreements

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

Reverse Repurchase Agreements and Obligations to Return Securities Borrowed under Reverse Repurchase Agreements

The Company borrows securities to cover short sales of U.S. Treasury securities through reverse repurchase transactions under our master repurchase agreements. We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on the balance sheet based on the value of the underlying borrowed securities as of the reporting date. The securities received as collateral in connection with our reverse repurchase agreements mitigate our credit risk exposure to counterparties. Our reverse repurchase agreements typically have maturities of 30 days or less.

Manager Compensation

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

Earnings Per Share

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

Income Taxes

Orchid has qualified and elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). REITs are generally not subject to federal income tax on their REIT taxable income provided that they distribute to their stockholders at least 90% of their REIT taxable income on an annual basis. In addition, a REIT must meet other provisions of the Code to retain its tax status.

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

Recent Accounting Pronouncements

On January 1, 2020, we adopted Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss model). The Company’s adoption of this ASU did not have a material effect on its financial statements as its financial assets were already measured at fair value through earnings.

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

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

NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's RMBS portfolio as of March 31, 2021 and December 31, 2020:

(in thousands)

	March 31, 2021	December 31, 2020
Pass-Through RMBS Certificates:		
Fixed-rate Mortgages	$ 4,297,731	$ 3,560,746
Fixed-rate CMOs	-	137,453
Total Pass-Through Certificates	4,297,731	3,698,199
Structured RMBS Certificates:		
Interest-Only Securities	35,521	28,696
Inverse Interest-Only Securities	5,284	-
Total Structured RMBS Certificates	40,805	28,696
Total	$ 4,338,536	$ 3,726,895

NOTE 3. REPURCHASE AGREEMENTS

The Company pledges certain of its RMBS as collateral under repurchase agreements with financial institutions. Interest rates are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is generally paid at the termination of a borrowing. If the fair value of the pledged securities declines, lenders will typically require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of the pledged securities increases, lenders may release collateral back to the Company. As of March 31, 2021, the Company had met all margin call requirements.

As of March 31, 2021 and December 31, 2020, the Company's repurchase agreements had remaining maturities as summarized below:

($ in thousands)

	OVERNIGHT (1 DAY OR LESS)	BETWEEN 2 AND 30 DAYS	BETWEEN 31 AND 90 DAYS	GREATER THAN 90 DAYS	TOTAL
March 31, 2021					
Fair market value of securities pledged, including accrued interest receivable	$ 58,219	$ 2,288,135	$ 1,316,896	$ 622,666	$ 4,285,916
Repurchase agreement liabilities associated with these securities	$ 53,526	$ 2,233,561	$ 1,289,617	$ 604,976	$ 4,181,680
Net weighted average borrowing rate	0.24%	0.18%	0.18%	0.18%	0.18%
December 31, 2020					
Fair market value of securities pledged, including accrued interest receivable	$ -	$ 2,112,969	$ 1,560,798	$ 55,776	$ 3,729,543
Repurchase agreement liabilities associated with these securities	$ -	$ 2,047,897	$ 1,494,500	$ 53,189	$ 3,595,586
Net weighted average borrowing rate	-	0.23%	0.22%	0.30%	0.23%

In addition, cash pledged to counterparties for repurchase agreements was approximately $102.6 million and $58.8 million as of March 31, 2021 and December 31, 2020, respectively.

If, during the term of a repurchase agreement, a lender files for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable and cash posted by the Company as collateral. At March 31, 2021, the Company had an aggregate amount at risk (the difference between the amount loaned to the Company, including interest payable and securities posted by the counterparty (if any), and the fair value of securities and cash pledged (if any), including accrued interest on such securities) with all counterparties of approximately $205.9

million. The Company did not have an amount at risk with any individual counterparty greater than 10% of the Company's equity at March 31, 2021 and December 31, 2020.

NOTE 4. DERIVATIVE AND OTHER HEDGING INSTRUMENTS

The table below summarizes fair value information about our derivative and other hedging instruments assets and liabilities as of March 31, 2021 and December 31, 2020.

(in thousands)

Derivative and Other Hedging Instruments	Balance Sheet Location	March 31, 2021	December 31, 2020
Assets			
Interest rate swaps	Derivative assets, at fair value	$ 25,254	$ 7
Payer swaptions (long positions)	Derivative assets, at fair value	58,643	17,433
Interest rate floors	Derivative assets, at fair value	2,399	-
TBA securities	Derivative assets, at fair value	9,456	3,559
Total derivative assets, at fair value		$ 95,752	$ 20,999
Liabilities			
Interest rate swaps	Derivative liabilities, at fair value	$ -	$ 24,711
Payer swaptions (short positions)	Derivative liabilities, at fair value	35,057	7,730
TBA securities	Derivative liabilities, at fair value	-	786
Total derivative liabilities, at fair value		$ 35,057	$ 33,227
Margin Balances Posted to (from) Counterparties			
Futures contracts	Restricted cash	$ 585	$ 489
TBA securities	Restricted cash	1,781	284
TBA securities	Other liabilities	(7,407)	(2,520)
Interest rate swaption contracts	Other liabilities	(13,962)	(3,563)
Interest rate swap contracts	Restricted cash	12,214	19,761
Total margin balances on derivative contracts		$ (6,789)	$ 14,451

Eurodollar, Fed Funds and T-Note futures are cash settled futures contracts on an interest rate, with gains and losses credited or charged to the Company's cash accounts on a daily basis. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. The tables below present information related to the Company's Eurodollar and T-Note futures positions at March 31, 2021 and December 31, 2020.

($ in thousands)

	March 31, 2021			
Expiration Year	**Average Contract Notional Amount**	**Weighted Average Entry Rate**	**Weighted Average Effective Rate**	**Open Equity (1)**
Eurodollar Futures Contracts (Short Positions)				
2021	$ 50,000	1.01%	0.21%	$ (301)
Treasury Note Futures Contracts (Short Position) (2)				
June 2021 5-year T-Note futures				
(Jun 2021 - Jun 2026 Hedge Period)	$ 69,000	0.88%	1.17%	$ 1,036

($ in thousands)

	December 31, 2020			
	Average Contract Notional	**Weighted Average Entry**	**Weighted Average Effective**	**Open**

Expiration Year		Amount	Rate	Rate		Equity[1]
Eurodollar Futures Contracts (Short Positions)						
2021	$	50,000	1.03%	0.18%	$	(424)
Treasury Note Futures Contracts (Short Position)[2]						
March 2021 5 year T-Note futures						
(Mar 2021 - Mar 2026 Hedge Period)	$	69,000	0.72%	0.67%	$	(186)

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

(2) T-Note futures contracts were valued at a price of $123.40 at March 31, 2021 and $126.16 at December 31, 2020. The contract values of the short positions were $85.1 million and $87.1 million at March 31, 2021 and December 31, 2020, respectively.

Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on LIBOR ("payer swaps"). The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics of our repurchase agreements and cash flows on such liabilities. We are typically required to post collateral on our interest rate swap agreements. The table below presents information related to the Company's interest rate swap positions at March 31, 2021 and December 31, 2020.

($ in thousands)

		Notional Amount	Average Fixed Pay Rate	Average Receive Rate		Net Estimated Fair Value	Average Maturity (Years)
March 31, 2021							
Expiration > 3 to ≤ 5 years	$	955,000	0.64%	0.21%	$	15,286	4.8
Expiration > 5 years		400,000	1.16%	0.18%		9,968	8.1
	$	1,355,000	0.79%	0.20%	$	25,254	5.7
December 31, 2020							
Expiration > 3 to ≤ 5 years	$	620,000	1.29%	0.22%	$	(23,760)	3.6
Expiration > 5 years		200,000	0.67%	0.23%		(944)	6.4
	$	820,000	1.14%	0.23%	$	(24,704)	4.3

The table below presents information related to the Company's interest rate floor positions at March 31, 2021.

($ in thousands)

Expiration		Notional Amount		Cost	Strike Swap Rate	Curve Spread		Net Estimated Fair Value
February 3, 2023	$	70,000	$	511	0.76%	30Y5Y	$	1,435
February 3, 2023		80,000		504	1.10%	10Y2Y		964
	$	150,000	$	1,015	0.94%			2,399

The table below presents information related to the Company's interest rate swaption positions at March 31, 2021 and December 31, 2020.

($ in thousands)

	Option					Underlying Swap			
Expiration		Cost		Fair Value	Weighted Average Months to Expiration		Notional Amount	Average Fixed Rate	Average Adjustable Rate (LIBOR)	Weighted Average Term (Years)
March 31, 2021										
Payer Swaptions - long										
>1 year ≤ 2 years	$	25,390	$	58,643	22.1	$	1,027,200	2.20%	3 Month	15.0

Payer Swaptions - short							
≤ 1 year	$ (10,720)	$ (35,057)	10.1	$ (782,850)	2.20%	3 Month	15.0
December 31, 2020							
Payer Swaptions - long							
≤ 1 year	$ 3,450	$ 5	2.5	$ 500,000	0.95%	3 Month	4.0
>1 year ≤ 2 years	13,410	17,428	17.4	675,000	1.49%	3 Month	12.8
	$ 16,860	$ 17,433	11.0	$ 1,175,000	1.26%	3 Month	9.0
Payer Swaptions - short							
≤ 1 year	$ (4,660)	$ (7,730)	5.4	$ (507,700)	1.49%	3 Month	12.8

The following table summarizes our contracts to purchase and sell TBA securities as of March 31, 2021 and December 31, 2020.

($ in thousands)

	Notional Amount Long (Short)(1)	Cost Basis(2)	Market Value(3)	Net Carrying Value(4)
March 31, 2021				
30-Year TBA securities:				
2.5%	$ (250,000)	$ (257,188)	$ (256,270)	$ 918
3.0%	(1,062,000)	(1,114,345)	(1,105,807)	8,538
Total	$ (1,312,000)	$ (1,371,533)	$ (1,362,077)	$ 9,456
December 31, 2020				
30-Year TBA securities:				
2.0%	$ 465,000	$ 479,531	$ 483,090	$ 3,559
3.0%	(328,000)	(342,896)	(343,682)	(786)
Total	$ 137,000	$ 136,635	$ 139,408	$ 2,773

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

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

The table below presents the effect of the Company's derivative and other hedging instruments on the statements of operations for the three months ended March 31, 2021 and 2020.

(in thousands)

	Three Months Ended March 31, 2021	2020
Eurodollar futures contracts (short positions)	$ 12	$ (8,217)
T-Note futures contracts (short position)	2,476	(4,339)
Interest rate swaps	27,123	(60,623)
Payer swaptions (short positions)	(26,167)	-
Payer swaptions (long positions)	40,070	(2,589)
Interest rate floors	1,384	-
TBA securities (short positions)	9,133	(7,090)
TBA securities (long positions)	(8,559)	-
Total	$ 45,472	$ (82,858)

Credit Risk-Related Contingent Features

The use of derivatives and other hedging instruments creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We minimize this risk by limiting our counterparties for instruments which are not centrally cleared on a registered exchange to major financial institutions with acceptable credit ratings and monitoring positions with individual counterparties. In addition, we may be required to pledge assets as collateral for our derivatives, whose amounts vary over time based on the market value, notional amount and remaining term of the derivative contract. In the event of a default by a counterparty, we may not receive payments provided for under the terms of our derivative agreements, and may have difficulty obtaining our assets pledged as collateral for our derivatives. The cash and cash equivalents pledged as collateral for our derivative instruments are included in restricted cash on our balance sheets. It is the Company's policy not to offset assets and liabilities associated with open derivative contracts. However, the Chicago Mercantile Exchange ("CME") rules characterize variation margin transfers as settlement payments, as opposed to adjustments to collateral. As a result, derivative assets and liabilities associated with centrally cleared derivatives for which the CME serves as the central clearing party are presented as if these derivatives had been settled as of the reporting date.

NOTE 5. PLEDGED ASSETS

Assets Pledged to Counterparties

The table below summarizes our assets pledged as collateral under our repurchase agreements and derivative agreements by type, including securities pledged related to securities sold but not yet settled, as of March 31, 2021 and December 31, 2020.

(in thousands)

	March 31, 2021			December 31, 2020		
Assets Pledged to Counterparties	**Repurchase Agreements**	**Derivative Agreements**	**Total**	**Repurchase Agreements**	**Derivative Agreements**	**Total**
PT RMBS - fair value	$ 4,081,596	$ -	$ 4,081,596	$ 3,692,811	$ -	$ 3,692,811
Structured RMBS - fair value	38,904	-	38,904	27,095	-	27,095
Accrued interest on pledged securities	10,572	-	10,572	9,636	-	9,636
Receivable for securities sold	154,977	-	154,977	-	-	-
Restricted cash	102,575	14,580	117,155	58,829	20,534	79,363
Total	$ 4,388,624	$ 14,580	$ 4,403,204	$ 3,788,371	$ 20,534	$ 3,808,905

Assets Pledged from Counterparties

The table below summarizes our assets pledged to us from counterparties under our repurchase agreements, reverse repurchase agreements and derivative agreements as of March 31, 2021 and December 31, 2020.

(in thousands)

	March 31, 2021			December 31, 2020		
Assets Pledged to Orchid	**Repurchase Agreements**	**Derivative Agreements**	**Total**	**Repurchase Agreements**	**Derivative Agreements**	**Total**
Cash	$ 99	$ 21,369	$ 21,468	$ 120	$ 6,083	$ 6,203
U.S. Treasury securities - fair value	737	-	737	253	-	253
Total	$ 836	$ 21,369	$ 22,205 $	$ 373	$ 6,083	$ 6,456

RMBS and U.S. Treasury securities received as margin under our repurchase agreements are not recorded in the balance sheets because the counterparty retains ownership of the security. U.S. Treasury securities received from counterparties as collateral under our reverse repurchase agreements are recognized as obligations to return securities borrowed under reverse repurchase agreements in the balance sheet. Cash received as margin is recognized as cash and cash equivalents with a corresponding amount recognized as an increase in repurchase agreements or other liabilities in the balance sheets.

NOTE 6. OFFSETTING ASSETS AND LIABILITIES

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

The following table presents information regarding those assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of March 31, 2021 and December 31, 2020.

(in thousands)

Offsetting of Assets						
				Gross Amount Not Offset in the Balance Sheet		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheet	Net Amount of Assets Presented in the Balance Sheet	Financial Instruments Received as Collateral	Cash Received as Collateral	Net Amount
March 31, 2021						
Interest rate swaps	$ 25,254	$ -	$ 25,254	$ -	$ -	$ 25,254
Interest rate swaptions	58,643	-	58,643	-	(13,962)	44,681
Interest rate floors	2,399	-	2,399	-	-	2,399
TBA securities	9,456	-	9,456	-	(7,407)	2,049
	$ 95,752	$ -	$ 95,752	$ -	$ (21,369)	$ 74,383
December 31, 2020						
Interest rate swaps	$ 7	$ -	$ 7	$ -	$ -	$ 7
Interest rate swaptions	17,433	-	17,433	-	(3,563)	13,870
TBA securities	3,559	-	3,559	-	(2,520)	1,039
	$ 20,999	$ -	$ 20,999	$ -	$ (6,083)	$ 14,916

(in thousands)

Offsetting of Liabilities						
				Gross Amount Not Offset in the Balance Sheet		
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Financial Instruments Posted as Collateral	Cash Posted as Collateral	Net Amount
March 31, 2021						
Repurchase Agreements	$ 4,181,680	$ -	$ 4,181,680	$ (4,079,105)	$ (102,575)	$ -
Interest rate swaptions	35,057	-	35,057	-	-	35,057
	$ 4,216,737	$ -	$ 4,216,737	$ (4,079,105)	$ (102,575)	$ 35,057
December 31, 2020						
Repurchase Agreements	$ 3,595,586	$ -	$ 3,595,586	$ (3,536,757)	$ (58,829)	$ -
Interest rate swaps	24,711	-	24,711	-	(19,761)	4,950
Interest rate swaptions	7,730	-	7,730	-	-	7,730
TBA securities	786	-	786	-	(284)	502
	$ 3,628,813	$ -	$ 3,628,813	$ (3,536,757)	$ (78,874)	$ 13,182

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

NOTE 7. CAPITAL STOCK

Common Stock Issuances

During the three months ended March 31, 2021 and the year ended December 31, 2020, the Company completed the following public offerings of shares of its common stock.

($ in thousands, except per share amounts)

Type of Offering	Period	Weighted Average Price Received Per Share (1)	Shares	Net Proceeds (2)
2021				
At the Market Offering Program (3)	First Quarter	$ 5.10	308,048	$ 1,572
Follow-on Offerings	First Quarter	5.31	17,940,000	95,336
Total			18,248,048	$ 96,908
2020				
At the Market Offering Program (3)	First Quarter	$ 6.13	3,170,727	$ 19,447
At the Market Offering Program (3)	Second Quarter	-	-	-
At the Market Offering Program (3)	Third Quarter	5.06	3,073,326	15,566
At the Market Offering Program (3)	Fourth Quarter	5.32	6,775,187	36,037
			13,019,240	$ 71,050

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

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

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

Stock Repurchase Program

On July 29, 2015, the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock. On February 8, 2018, the Board of Directors approved an increase in the stock repurchase program for up to an additional 4,522,822 shares of the Company's common stock. Coupled with the 783,757 shares remaining from the original 2,000,000 share authorization, the increased authorization brought the total authorization to 5,306,579 shares, representing 10% of the Company's then outstanding share count. As part of the stock repurchase program, shares may be purchased in open market transactions, block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The authorization does not obligate the Company to acquire any particular amount of common stock and the program may be suspended or discontinued at the Company's discretion without prior notice.

From the inception of the stock repurchase program through March 31, 2021, the Company repurchased a total of 5,685,511 shares at an aggregate cost of approximately $40.4 million, including commissions and fees, for a weighted average price of $7.10 per share. No shares were repurchased during the three months ended March 31, 2021 and 2020. The remaining authorization under the repurchase program as of March 31, 2021 was 837,311 shares.

Cash Dividends

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

(in thousands, except per share amounts)

Year	Per Share Amount	Total
2013	$ 1.395	$ 4,662
2014	2.160	22,643
2015	1.920	38,748
2016	1.680	41,388
2017	1.680	70,717
2018	1.070	55,814
2019	0.960	54,421
2020	0.790	53,570
2021 - YTD (1)	0.260	23,374
Totals	$ 11.915	$ 365,337

(1) On April 14, 2021, the Company declared a dividend of $0.065 per share to be paid on May 26, 2021. The effect of this dividend is included in the table above but is not reflected in the Company's financial statements as of March 31, 2021.

NOTE 8. STOCK INCENTIVE PLAN

In October 2012, the Company's Board of Directors adopted and Bimini, then the Company's sole stockholder, approved, the Orchid Island Capital, Inc. 2012 Equity Incentive Plan (the "Incentive Plan") to recruit and retain employees, directors and other service providers, including employees of the Manager and other affiliates. The Incentive Plan provides for the award of stock options, stock appreciation rights, stock award, performance units, other equity-based awards (and dividend equivalents with respect to awards of performance units and other equity-based awards) and incentive awards. The Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors except that the Company's full Board of Directors will administer awards made to directors who are not employees of the Company or its affiliates. The Incentive Plan provides for awards of up to an aggregate of 10% of the issued and outstanding shares of our common stock (on a fully diluted basis) at the time of the awards, subject to a maximum aggregate 4,000,000 shares of the Company's common stock that may be issued under the Incentive Plan.

Performance Units

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

The following table presents information related to Performance Units outstanding during the three months ended March 31, 2021 and 2020.

($ in thousands, except per share data)

	Three Months Ended March 31,

	2021			2020		
	Shares		Weighted Average Grant Date Fair Value	Shares		Weighted Average Grant Date Fair Value
Unvested, beginning of period	4,554	$	7.45	19,021	$	7.78
Granted	137,897		5.88	-		-
Vested and issued	(2,277)		7.45	(4,153)		8.20
Unvested, end of period	140,174	$	5.91	14,868	$	7.66
Compensation expense during period		$	3		$	14
Unrecognized compensation expense, end of period		$	812		$	27
Intrinsic value, end of period		$	842		$	44
Weighted-average remaining vesting term (in years)			2.1			0.7

The number of shares of common stock issuable upon the vesting of the remaining outstanding Performance Units was reduced in the third quarter of 2020 as a result of the book value impairment event that occurred pursuant to the Company's Long-Term Incentive Compensation Plans (the "Plans"). The book value impairment event occurred when the Company's book value per share declined by more than 15% during the quarter ended March 31, 2020 and the Company's book value per share decline from January 1, 2020 to June 30, 2020 was more than 10%. The Plans provide that if such a book value impairment event occurs, then the number of outstanding Performance Units that are outstanding as of the last day of such two-quarter period shall be reduced by 15%.

Stock Awards

The Company has issued, and may in the future issue additional, immediately vested common stock under the Incentive Plan to certain executive officers and employees of its Manager. The following table presents information related to fully vested common stock issued during the three months ended March 31, 2021 and 2020. All of the fully vested shares of common stock issued during the three months ended March 31, 2021, and the related compensation expense, were granted with respect to service performed during the previous fiscal year.

($ in thousands, except per share data)

	Three Months Ended March 31			
		2021		2020
Fully vested shares granted		137,897		-
Weighted average grant date price per share	$	5.88		-
Compensation expense related to fully vested shares of common stock awards (1)	$	811	$	-

(1) The awards issued during the three months ended March 31, 2021 were granted with respect to service performed in 2020. Approximately $600,000 of compensation expense related to the 2021 awards was accrued and recognized in 2020.

Deferred Stock Units

Non-employee directors began to receive a portion of their compensation in the form of deferred stock unit awards (“DSUs”) pursuant to the Incentive Plan beginning with the awards for the second quarter of 2018. Each DSU represents a right to receive one share of the Company’s common stock. The DSUs are immediately vested and are settled at a future date based on the election of the individual participant. The DSUs contain dividend equivalent rights, which entitle the participant to receive distributions declared by the Company on common stock. These dividend equivalent rights are settled in cash or additional DSUs at the participant’s election. The DSUs do not include the right to vote the underlying shares of common stock.

The following table presents information related to the DSUs outstanding during the three months ended March 31, 2021 and 2020.

($ in thousands, except per share data)

	Three Months Ended March 31,					
	2021			2020		
	Shares		Weighted Average Grant Date Fair Value	Shares		Weighted Average Grant Date Fair Value
Outstanding, beginning of period	90,946	$	5.44	43,570	$	6.56
Granted and vested	10,422		5.31	9,008		5.69
Issued	-		-	-		-
Outstanding, end of period	101,368	$	5.43	52,578	$	6.41
Compensation expense during period		$	45		$	45
Intrinsic value, end of period		$	609		$	155

NOTE 9. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any reported or unreported contingencies at March 31, 2021.

NOTE 10. INCOME TAXES

The Company will generally not be subject to federal income tax on its REIT taxable income to the extent it distributes its REIT taxable income to its stockholders and satisfies the ongoing REIT requirements, including meeting certain asset, income and stock ownership tests. A REIT must generally distribute at least 90% of its REIT taxable income to its stockholders, of which 85% generally must be distributed within the taxable year, in order to avoid the imposition of an excise tax. The remaining balance may be distributed up to the end of the following taxable year, provided the REIT elects to treat such amount as a prior year distribution and meets certain other requirements.

NOTE 11. EARNINGS PER SHARE (EPS)

The Company had dividend eligible Performance Units and Deferred Stock Units that were outstanding during the three months ended March 31, 2021 and 2020. The basic and diluted per share computations include these unvested Performance Units and Deferred Stock Units if there is income available to common stock, as they have dividend participation rights. The unvested Performance Units and Deferred Stock Units have no contractual obligation to share in losses. Because there is no such obligation, the unvested Performance Units and Deferred Stock Units are not included in the basic and diluted EPS computations when no income is available to common stock even though they are considered participating securities.

The table below reconciles the numerator and denominator of EPS for the three months ended March 31, 2021 and 2020.

(in thousands, except per share information)

	Three Months Ended March 31,		
		2021	2020
Basic and diluted EPS per common share:			
Numerator for basic and diluted EPS per share of common stock:			
Net loss - Basic and diluted	$	(29,369)	$ (91,199)
Weighted average shares of common stock:			
Shares of common stock outstanding at the balance sheet date		94,411	66,237
Effect of weighting		(9,066)	(1,647)
Weighted average shares-basic and diluted		85,345	64,590
Net loss per common share:			

Basic and diluted	$	(0.34) $	(1.41)
Anti-dilutive incentive shares not included in calculation.		242	67

NOTE 12. FAIR VALUE

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

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

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

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

RMBS (based on the fair value option), derivatives and TBA securities were recorded at fair value on a recurring basis during the three months ended March 31, 2021 and 2020. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets.

The following table presents financial assets (liabilities) measured at fair value on a recurring basis as of March 31, 2021 and December 31, 2020. Derivative contracts are reported as a net position by contract type, and not based on master netting arrangements.

(in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2021			
Mortgage-backed securities	$ -	$ 4,338,536	$ -
Interest rate swaps	-	25,254	-
Interest rate swaptions	-	23,586	-
Interest rate floors	-	2,399	-
TBA securities	-	9,456	-
December 31, 2020			
Mortgage-backed securities	$ -	$ 3,726,895	$ -
Interest rate swaps	-	(24,704)	-
Interest rate swaptions	-	9,703	-
TBA securities	-	2,773	-

During the three months ended March 31, 2021 and 2020, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

NOTE 13. RELATED PARTY TRANSACTIONS

Management Agreement

The Company is externally managed and advised by Bimini Advisors, LLC (the “Manager”) pursuant to the terms of a management agreement. The management agreement has been renewed through February 20, 2022 and provides for automatic one-year extension options thereafter and is subject to certain termination rights. Under the terms of the management agreement, the Manager is responsible for administering the business activities and day-to-day operations of the Company. The Manager receives a monthly management fee in the amount of:

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

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

Total expenses recorded for the management fee and costs incurred were approximately $2.0 million and $1.7 million for the three months ended March 31, 2021 and 2020, respectively. At March 31, 2021 and December 31, 2020, the net amount due to affiliates was approximately $0.7 million and $0.6 million, respectively.

Other Relationships with Bimini

Robert Cauley, our Chief Executive Officer and Chairman of our Board of Directors, also serves as Chief Executive Officer and Chairman of the Board of Directors of Bimini and owns shares of common stock of Bimini. George H. Haas, IV, our Chief Financial Officer, Chief Investment Officer, Secretary and a member of our Board of Directors, also serves as the Chief Financial Officer, Chief Investment Officer and Treasurer of Bimini and owns shares of common stock of Bimini. In addition, as of March 31, 2021, Bimini owned 2,595,357 shares, or 2.8%, of the Company’s common stock.

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

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

Overview

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

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

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

The Company’s common stock trades on the New York Stock Exchange under the symbol “ORC”.

Capital Raising Activities

On January 23, 2020, we entered into an equity distribution agreement (the “January 2020 Equity Distribution Agreement”) with three sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $200,000,000 of shares of our common stock in transactions that were deemed to be “at the market” offerings and privately negotiated transactions. We issued a total of 3,170,727 shares under the January 2020 Equity Distribution Agreement for aggregate gross proceeds of $19.8 million, and net proceeds of approximately $19.4 million, net of commissions and fees, prior to its termination in August 2020.

On August 4, 2020, we entered into an equity distribution agreement (the “August 2020 Equity Distribution Agreement”) with four sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $150,000,000 of shares of our common stock in transactions that are deemed to be “at the market” offerings and privately negotiated transactions. Through March 31, 2021, we issued a total of 10,156,561 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $54.1 million, and net proceeds of approximately $53.2 million, net of commissions and fees.

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

On March 2, 2021 we entered into an underwriting agreement (the “March 2021 Underwriting Agreement”) with J.P. Morgan relating to the offer and sale of 8,000,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the March 2021 Underwriting Agreement at $5.45 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 1,200,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on March 3, 2021. The closing of the offering of 9,200,000 shares of our common stock occurred on March 5, 2021, with net proceeds to us of approximately $50.1 million, net of offering expenses.

Stock Repurchase Agreement

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

From the inception of the stock repurchase program through March 31, 2021, the Company repurchased a total of 5,685,511 shares at an aggregate cost of approximately $40.4 million, including commissions and fees, for a weighted average price of $7.10 per share. The Company did not repurchase any shares of its common stock during the three months ended March 31, 2021. The remaining authorization under the repurchase program as of March 31, 2021 was 837,311 shares.

Factors that Affect our Results of Operations and Financial Condition

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

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

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

- our degree of leverage;
- our access to funding and borrowing capacity;
- our borrowing costs;
- our hedging activities;
- the market value of our investments; and
- the requirements to qualify as a REIT and the requirements to qualify for a registration exemption under the Investment Company Act.

Results of Operations

Described below are the Company's results of operations for the three months ended March 31, 2021, as compared to the Company's results of operations for the three months ended March 31, 2020.

Net (Loss) Income Summary

Net loss for the three months ended March 31, 2021 was $29.4 million, or $0.34 per share. Net loss for the three months ended March 31, 2020 was $91.2 million, or $1.41 per share. The components of net loss for the three months ended March 31, 2021 and 2020, along with the changes in those components are presented in the table below:

(in thousands)

	2021	2020	Change
Interest income	$ 26,856	$ 35,671	$ (8,815)
Interest expense	(1,941)	(16,523)	14,582
Net interest income	24,915	19,148	5,767
Losses on RMBS and derivative contracts	(50,791)	(108,206)	57,415
Net portfolio deficiency	(25,876)	(89,058)	63,182
Expenses	(3,493)	(2,141)	(1,352)
Net loss	$ (29,369)	$ (91,199)	$ 61,830

GAAP and Non-GAAP Reconciliations

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

Net Earnings Excluding Realized and Unrealized Gains and Losses

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

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

Presenting net earnings excluding realized and unrealized gains and losses allows management to: (i) isolate the net interest income and other expenses of the Company over time, free of all fair value adjustments and (ii) assess the effectiveness of our funding and hedging strategies on our capital allocation decisions and our asset allocation performance.

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

Net Earnings Excluding Realized and Unrealized Gains and Losses

(in thousands, except per share data)

				Per Share		
	Net Income (GAAP)	Realized and Unrealized Gains and Losses[1]	Net Earnings Excluding Realized and Unrealized Gains and Losses	Net Income (GAAP)	Realized and Unrealized Gains and Losses	Net Earnings Excluding Realized and Unrealized Gains and Losses
Three Months Ended						
March 31, 2021	$ (29,369)	$ (50,791)	$ 21,422	$ (0.34)	$ (0.60)	$ 0.26
December 31, 2020	16,479	(4,605)	21,084	0.23	(0.07)	0.30
September 30, 2020	28,076	5,745	22,331	0.42	0.09	0.33
June 30, 2020	48,772	28,749	20,023	0.74	0.43	0.31
March 31, 2020	(91,199)	(108,206)	17,007	(1.41)	(1.68)	0.27

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

Economic Interest Expense and Economic Net Interest Income

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

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

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

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

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

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

The tables below present a reconciliation of the adjustments to interest expense shown for each period relative to our derivative instruments, and the income statement line item, gains (losses) on derivative instruments, calculated in accordance with GAAP for each quarter of 2021 to date and 2020.

Gains (Losses) on Derivative Instruments

(in thousands)

	Recognized in Income Statement (GAAP)	U.S. Treasury and TBA Securities Gain (Loss) (Short Positions)	U.S. Treasury and TBA Securities Gain (Loss) (Long Positions)	Funding Hedges: Attributed to Current Period (Non-GAAP)	Funding Hedges: Attributed to Future Periods (Non-GAAP)
Three Months Ended					
March 31, 2021	$ 45,472	$ 9,133	$ (8,559)	$ (4,044)	$ 48,942
December 31, 2020	8,538	(436)	5,480	(5,790)	$ 9,284
September 30, 2020	4,079	131	3,336	(6,900)	$ 7,512
June 30, 2020	(8,851)	582	1,133	(5,751)	$ (4,815)
March 31, 2020	(82,858)	(7,090)	-	(4,900)	$ (70,868)

Economic Interest Expense and Economic Net Interest Income

(in thousands)

	Interest Expense on Borrowings
	Gains (Losses) on

	Interest Income	GAAP Interest Expense	Derivative Instruments Attributed to Current Period[1]	Economic Interest Expense[2]	Net Interest Income: GAAP Net Interest Income	Net Interest Income: Economic Net Interest Income[3]
Three Months Ended						
March 31, 2021	$ 26,856	$ 1,941	$ (4,044)	$ 5,985	$ 24,915	$ 20,871
December 31, 2020	25,893	2,011	(5,790)	7,801	23,882	18,092
September 30, 2020	27,223	2,043	(6,900)	8,943	25,180	18,280
June 30, 2020	27,258	4,479	(5,751)	10,230	22,779	17,028
March 31, 2020	35,671	16,523	(4,900)	21,423	19,148	14,248

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

Net Interest Income

During the three months ended March 31, 2021, we generated $24.9 million of net interest income, consisting of $26.9 million of interest income from RMBS assets offset by $1.9 million of interest expense on borrowings. For the comparable period ended March 31, 2020, we generated $19.1 million of net interest income, consisting of $35.7 million of interest income from RMBS assets offset by $16.5 million of interest expense on borrowings. The $8.8 million decrease in interest income was due to a 170 basis point ("bps") decrease in the yield on average RMBS, partially offset by the $762.9 million increase in average RMBS. The $14.6 million decrease in interest expense was due to a 191 bps decrease in the average cost of funds, partially offset by a $759.5 million increase in average outstanding borrowings. We had more average assets and borrowings during the first quarter of 2021 compared to the first quarter of 2020 as we deployed the proceeds of our capital raising activity during the second half of 2020 and the first quarter of 2021.

On an economic basis, our interest expense on borrowings for the three months ended March 31, 2021 and 2020 was $6.0 million and $21.4 million, respectively, resulting in $20.9 million and $14.2 million of economic net interest income, respectively. The lower economic interest expense during the three months ended March 31, 2021 was due to the 191 bps decrease in the average cost of funds noted above, partially offset by the $759.5 million increase in average outstanding borrowings and the negative performance of our hedging activities during the period.

The tables below provide information on our portfolio average balances, interest income, yield on assets, average borrowings, interest expense, cost of funds, net interest income and net interest spread for each quarter in 2021 to date and 2020 on both a GAAP and economic basis.

($ in thousands)

	Average RMBS Held[1]	Interest Income	Yield on Average RMBS	Average Borrowings[1]	Interest Expense: GAAP Basis	Interest Expense: Economic Basis[2]	Average Cost of Funds: GAAP Basis	Average Cost of Funds: Economic Basis[3]
Three Months Ended								
March 31, 2021	$ 4,032,716	$ 26,856	2.66%	$ 3,888,633	$ 1,941	$ 5,985	0.20%	0.62%
December 31, 2020	3,633,631	25,893	2.85%	3,438,444	2,011	7,801	0.23%	0.91%
September 30, 2020	3,422,564	27,223	3.18%	3,228,021	2,043	8,943	0.25%	1.11%
June 30, 2020	3,126,779	27,258	3.49%	2,992,494	4,479	10,230	0.60%	1.37%
March 31, 2020	3,269,859	35,671	4.36%	3,129,178	16,523	21,423	2.11%	2.74%

($ in thousands)

	Net Interest Income: GAAP Basis	Net Interest Income: Economic Basis[2]	Net Interest Spread: GAAP Basis	Net Interest Spread: Economic Basis[4]
Three Months Ended				

March 31, 2021	$	24,915 $	20,871	2.46%	2.04%
December 31, 2020		23,882	18,093	2.62%	1.94%
September 30, 2020		25,180	18,280	2.93%	2.07%
June 30, 2020		22,779	17,028	2.89%	2.12%
March 31, 2020		19,148	14,248	2.25%	1.62%

(1) Portfolio yields and costs of borrowings presented in the tables above and the tables on pages 29 and 30 are calculated based on the average balances of the underlying investment portfolio/borrowings balances and are annualized for the periods presented. Average balances for quarterly periods are calculated using two data points, the beginning and ending balances.

(2) Economic interest expense and economic net interest income presented in the table above and the tables on page 30 include the effect of our derivative instrument hedges for only the periods presented.

(3) Represents interest cost of our borrowings and the effect of derivative instrument hedges attributed to the period divided by average RMBS.

(4) Economic net interest spread is calculated by subtracting average economic cost of funds from realized yield on average RMBS.

Interest Income and Average Asset Yield

Our interest income for the three months ended March 31, 2021 and 2020 was $26.9 million and $35.7 million, respectively. We had average RMBS holdings of $4,032.7 million and $3,269.9 million for the three months ended March 31, 2021 and 2020, respectively. The yield on our portfolio was 2.66% and 4.36% for the three months ended March 31, 2021 and 2020, respectively. For the three months ended March 31, 2021 as compared to the three months ended March 31, 2020, there was a $8.8 million decrease in interest income due to a 170 bps decrease in the yield on average RMBS, partially offset by a $762.9 million increase in average RMBS.

The table below presents the average portfolio size, income and yields of our respective sub-portfolios, consisting of structured RMBS and PT RMBS for each quarter in 2021 to date and 2020.

($ in thousands)

	Average RMBS Held			Interest Income			Realized Yield on Average RMBS		
Three Months Ended	**PT RMBS**	**Structured RMBS**	**Total**	**PT RMBS**	**Structured RMBS**	**Total**	**PT RMBS**	**Structured RMBS**	**Total**
March 31, 2021	$ 3,997,965	$ 34,751	$ 4,032,716	$ 26,869	$ (13)	$ 26,856	2.69%	(0.15)%	2.66%
December 31, 2020	3,603,885	29,746	3,633,631	25,933	(40)	25,893	2.88%	(0.53)%	2.85%
September 30, 2020	3,389,037	33,527	3,422,564	27,021	202	27,223	3.19%	2.41%	3.18%
June 30, 2020	3,088,603	38,176	3,126,779	27,004	254	27,258	3.50%	2.67%	3.49%
March 31, 2020	3,207,467	62,392	3,269,859	35,286	385	35,671	4.40%	2.47%	4.36%

Interest Expense and the Cost of Funds

We had average outstanding borrowings of $3,888.6 million and $3,129.2 million and total interest expense of $1.9 million and $16.5 million for the three months ended March 31, 2021 and 2020, respectively. Our average cost of funds was 0.20% and 2.11% for the three months ended March 31, 2021 and 2020, respectively. Contributing to the decrease in interest expense was a 191 bps decrease in the average cost of funds, partially offset by a $759.5 million increase in average outstanding borrowings during the three months ended March 31, 2021 as compared to the three months ended March 31, 2020.

Our economic interest expense was $6.0 million and $21.4 million for the three months ended March 31, 2021 and 2020, respectively. There was a 212 bps decrease in the average economic cost of funds to 0.62% for the three months ended March 31, 2021 from 2.74% for the three months ended March 31, 2020.

Since all of our repurchase agreements are short-term, changes in market rates directly affect our interest expense. Our average cost of funds calculated on a GAAP basis was 7 bps above the average one-month LIBOR and 3 bps below the average six-month LIBOR for the quarter ended March 31, 2021. Our average economic cost of funds was 49 bps above the average one-month LIBOR and 39 bps above the average six-month LIBOR for the quarter ended March 31, 2021. The average term to maturity of the outstanding repurchase agreements was 43 days at March 31, 2021 and 31 days at December 31, 2020.

The tables below present the average balance of borrowings outstanding, interest expense and average cost of funds, and average one-month and six-month LIBOR rates for each quarter in 2021 to date and 2020 on both a GAAP and economic basis.

($ in thousands)

	Average	Interest Expense		Average Cost of Funds	
	Balance of	GAAP	Economic	GAAP	Economic
Three Months Ended	Borrowings	Basis	Basis	Basis	Basis
March 31, 2021	$ 3,888,633	$ 1,941	$ 5,985	0.20%	0.62%
December 31, 2020	3,438,444	2,011	7,801	0.23%	0.91%
September 30, 2020	3,228,021	2,043	8,943	0.25%	1.11%
June 30, 2020	2,992,494	4,479	10,230	0.60%	1.37%
March 31, 2020	3,129,178	16,523	21,423	2.11%	2.74%

			Average GAAP Cost of Funds Relative to Average		Average Economic Cost of Funds Relative to Average	
	Average LIBOR		One-Month	Six-Month	One-Month	Six-Month
	One-Month	Six-Month	LIBOR	LIBOR	LIBOR	LIBOR
Three Months Ended						
March 31, 2021	0.13%	0.23%	0.07%	(0.03)%	0.49%	0.39%
December 31, 2020	0.15%	0.27%	0.08%	(0.04)%	0.76%	0.64%
September 30, 2020	0.17%	0.35%	0.08%	(0.10)%	0.94%	0.76%
June 30, 2020	0.55%	0.70%	0.05%	(0.10)%	0.82%	0.67%
March 31, 2020	1.34%	1.43%	0.77%	0.68%	1.40%	1.31%

Gains or Losses

The table below presents our gains or losses for the three months ended March 31, 2021 and 2020.

(in thousands)

	2021	2020	Change
Realized losses on sales of RMBS	$ (7,397)	$ (28,380)	$ 20,983
Unrealized (losses) gains on RMBS	(88,866)	3,032	(91,898)
Total losses on RMBS	(96,263)	(25,348)	(70,915)
Gains (losses) on interest rate futures	2,488	(12,556)	15,044
Gains (losses) on interest rate swaps	27,123	(60,623)	87,746
Losses on payer swaptions (short positions)	(26,167)	-	(26,167)
Gains (losses) on payer swaptions (long positions)	40,070	(2,589)	42,659
Gains on interest rate floors	1,384	-	1,384
Losses on TBA securities (long positions)	(8,559)	-	(8,559)
Gains (losses) on TBA securities (short positions)	9,133	(7,090)	16,223
Total	$ (50,791)	$ (108,206)	$ 57,415

We invest in RMBS with the intent to earn net income from the realized yield on those assets over their related funding and hedging costs, and not for the purpose of making short term gains from sales. However, we have sold, and may continue to sell, existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns in light of current or anticipated interest rates, federal government programs or general economic conditions or to manage our balance sheet as part of our asset/liability management strategy. During the three months ended March 31, 2021 and 2020, we received proceeds of $988.5 million and $1,808.9 million, respectively, from the sales of RMBS. Most of these sales in the first quarter of 2020 occurred during the second half of March 2020 as we sold assets in order to maintain sufficient cash and liquidity and reduce risk associated with the market turmoil brought about by COVID-19.

Realized and unrealized gains and losses on RMBS are driven in part by changes in yields and interest rates, which affect the pricing of the securities in our portfolio. As rates increased during the three months ended March 31, 2021, it had a negative impact on our RMBS portfolio. Gains and losses on interest rate futures contracts are affected by changes in implied forward rates during the reporting period. The table below presents historical interest rate data for each quarter end during 2021 to date and 2020.

	5 Year U.S. Treasury Rate[(1)]	10 Year U.S. Treasury Rate[(1)]	15 Year Fixed-Rate Mortgage Rate[(2)]	30 Year Fixed-Rate Mortgage Rate[(2)]	Three Month LIBOR[(3)]
March 31, 2021	0.94%	1.75%	2.39%	3.08%	0.19%
December 31, 2020	0.36%	0.92%	2.22%	2.68%	0.23%
September 30, 2020	0.27%	0.68%	2.39%	2.89%	0.24%
June 30, 2020	0.29%	0.65%	2.60%	3.16%	0.31%
March 31, 2020	0.38%	0.70%	2.89%	3.45%	1.10%

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

Expenses

Total operating expenses were approximately $3.5 million and $2.1 million for the three months ended March 31, 2021 and 2020, respectively. The table below presents a breakdown of operating expenses for the three months ended March 31, 2021 and 2020.

(in thousands)

	2021	2020	Change
Management fees	$ 1,621	$ 1,377	$ 244
Overhead allocation	404	347	57
Accrued incentive compensation	364	(436)	800
Directors fees and liability insurance	272	260	12
Audit, legal and other professional fees	318	255	63
Other direct REIT operating expenses	421	206	215
Other expenses	93	132	(39)
Total expenses	$ 3,493	$ 2,141	$ 1,352

We are externally managed and advised by Bimini Advisors, LLC (the "Manager") pursuant to the terms of a management agreement. The management agreement has been renewed through February 20, 2022 and provides for automatic one-year extension options thereafter and is subject to certain termination rights. Under the terms of the management agreement, the Manager is responsible for administering the business activities and day-to-day operations of the Company. The Manager receives a monthly management fee in the amount of:

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

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

The following table summarizes the management fee and overhead allocation expenses for each quarter in 2021 to date and 2020.

($ in thousands)

	Average	Average	Advisory Services		
Three Months Ended	Orchid MBS	Orchid Equity	Management Fee	Overhead Allocation	Total
March 31, 2021	$ 4,032,716	$ 453,353	$ 1,621	$ 404	$ 2,025
December 31, 2020	3,633,631	387,503	1,384	442	1,826
September 30, 2020	3,422,564	368,588	1,252	377	1,629
June 30, 2020	3,126,779	361,093	1,268	348	1,616
March 31, 2020	3,269,859	376,673	1,377	347	1,724

Financial Condition:

Mortgage-Backed Securities

As of March 31, 2021, our RMBS portfolio consisted of $4,338.5 million of Agency RMBS at fair value and had a weighted average coupon on assets of 3.02%. During the three months ended March 31, 2021, we received principal repayments of $123.9 million compared to $142.3 million for the three months ended March 31, 2020. The average three month prepayment speeds for the quarters ended March 31, 2021 and 2020 were 12.0% and 11.9%, respectively.

The following table presents the 3-month constant prepayment rate ("CPR") experienced on our structured and PT RMBS sub-portfolios, on an annualized basis, for the quarterly periods presented. CPR is a method of expressing the prepayment rate for a mortgage pool that assumes that a constant fraction of the remaining principal is prepaid each month or year. Specifically, the CPR in the chart below represents the three month prepayment rate of the securities in the respective asset category. Assets that were not owned for the entire quarter have been excluded from the calculation. The exclusion of certain assets during periods of high trading activity can create a very high, and often volatile, reliance on a small sample of underlying loans.

Three Months Ended	PT RMBS Portfolio (%)	Structured RMBS Portfolio (%)	Total Portfolio (%)
March 31, 2021	9.9	40.3	12.0
December 31, 2020	16.7	44.3	20.1
September 30, 2020	14.3	40.4	17.0
June 30, 2020	13.9	35.3	16.3
March 31, 2020	9.8	22.9	11.9

The following tables summarize certain characteristics of the Company's PT RMBS and structured RMBS as of March 31, 2021 and December 31, 2020:

($ in thousands)

Asset Category	Fair Value	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity
March 31, 2021					
Fixed Rate RMBS	$ 4,297,731	99.1%	2.95%	335	1-Mar-51
Total Mortgage-backed Pass-through	4,297,731	99.1%	2.95%	335	1-Mar-51

Interest-Only Securities	35,521	0.8%	3.98%	264	25-May-50
Inverse Interest-Only Securities	5,284	0.1%	3.77%	311	15-Jun-42
Total Structured RMBS	40,805	0.9%	3.93%	275	25-May-50
Total Mortgage Assets	$ 4,338,536	100.0%	3.02%	331	1-Mar-51
December 31, 2020					
Fixed Rate RMBS	$ 3,560,746	95.5%	3.09%	339	1-Jan-51
Fixed Rate CMOs	137,453	3.7%	4.00%	312	15-Dec-42
Total Mortgage-backed Pass-through	3,698,199	99.2%	3.13%	338	1-Jan-51
Interest-Only Securities	28,696	0.8%	3.98%	268	25-May-50
Total Structured RMBS	28,696	0.8%	3.98%	268	25-May-50
Total Mortgage Assets	$ 3,726,895	100.0%	3.19%	333	1-Jan-51

($ in thousands)

	March 31, 2021		December 31, 2020	
Agency	**Fair Value**	**Percentage of Entire Portfolio**	**Fair Value**	**Percentage of Entire Portfolio**
Fannie Mae	$ 3,439,588	79.3%	$ 2,733,960	73.4%
Freddie Mac	898,948	20.7%	992,935	26.6%
Total Portfolio	$ 4,338,536	100.0%	$ 3,726,895	100.0%

	March 31, 2021	December 31, 2020
Weighted Average Pass-through Purchase Price	$ 107.56	$ 107.43
Weighted Average Structured Purchase Price	$ 18.69	$ 20.06
Weighted Average Pass-through Current Price	$ 106.14	$ 108.94
Weighted Average Structured Current Price	$ 13.83	$ 10.87
Effective Duration (1)	4.090	2.360

(1) Effective duration is the approximate percentage change in price for a 100 bps change in rates. An effective duration of 4.090 indicates that an interest rate increase of 1.0% would be expected to cause a 4.090% decrease in the value of the RMBS in the Company's investment portfolio at March 31, 2021. An effective duration of 2.360 indicates that an interest rate increase of 1.0% would be expected to cause a 2.360% decrease in the value of the RMBS in the Company's investment portfolio at December 31, 2020. These figures include the structured securities in the portfolio, but do not include the effect of the Company's funding cost hedges. Effective duration quotes for individual investments are obtained from The Yield Book, Inc.

The following table presents a summary of portfolio assets acquired during the three months ended March 31, 2021 and 2020, including securities purchased during the period that settled after the end of the period, if any.

($ in thousands)

	2021			2020		
	Total Cost	**Average Price**	**Weighted Average Yield**	**Total Cost**	**Average Price**	**Weighted Average Yield**
Pass-through RMBS	$ 1,971,296	$ 107.09	1.38%	$ 1,334,350	$ 107.18	2.28%
Structured RMBS	4,807	6.93	0.14	-	-	0.00%

Borrowings

As of March 31, 2021, we had established borrowing facilities in the repurchase agreement market with a number of commercial banks and other financial institutions and had borrowings in place with 21 of these counterparties. None of these lenders are affiliated with the Company. These borrowings are secured by the Company's RMBS and cash, and bear interest at prevailing market rates. We believe our established repurchase agreement borrowing facilities provide borrowing capacity in excess of our needs.

As of March 31, 2021, we had obligations outstanding under the repurchase agreements of approximately $4,181.7 million with a net weighted average borrowing cost of 0.18%. The remaining maturity of our outstanding repurchase agreement obligations ranged from 1 to 160 days, with a weighted average remaining maturity of 43 days. Securing the repurchase agreement obligations as of March 31, 2021 are RMBS with an estimated fair value, including accrued interest, of approximately $4,285.9 million and a weighted average maturity of 339 months, and cash pledged to counterparties of approximately $102.6 million. Through April 30, 2021, we have been able to maintain our repurchase facilities with comparable terms to those that existed at March 31, 2021 with maturities through October 8, 2021.

The table below presents information about our period end, maximum and average balances of borrowings for each quarter in 2021 to date and 2020.

($ in thousands)

	Ending Balance of	Maximum Balance of	Average Balance of	Difference Between Ending Borrowings and Average Borrowings	
Three Months Ended	**Borrowings**	**Borrowings**	**Borrowings**	**Amount**	**Percent**
March 31, 2021	$ 4,181,680	$ 4,204,935	$ 3,888,633	$ 293,047	7.54%
December 31, 2020	3,595,586	3,597,313	3,438,444	157,142	4.57%
September 30, 2020	3,281,303	3,286,454	3,228,021	53,282	1.65%
June 30, 2020	3,174,739	3,235,370	2,992,494	182,245	6.09%
March 31, 2020	2,810,250	4,297,621	3,129,178	(318,928)	(10.19)% (1)

(1) The lower ending balance relative to the average balance during the quarter ended March 31, 2020 reflects the disposal of RMBS pledged as collateral in order to maintain cash and liquidity in response to the dislocations in the financial and mortgage markets resulting from the economic impacts of COVID-19. During the quarter ended March 31, 2020, the Company's investment in RMBS decreased $642.1 million.

Liquidity and Capital Resources

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

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

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

Our master repurchase agreements have no stated expiration, but can be terminated at any time at our option or at the option of the counterparty. However, once a definitive repurchase agreement under a master repurchase agreement has been entered into, it generally may not be terminated by either party. A negotiated termination can occur, but may involve a fee to be paid by the party seeking to terminate the repurchase agreement transaction, as it did during the three months ended March 31, 2020.

Under our repurchase agreement funding arrangements, we are required to post margin at the initiation of the borrowing. The margin posted represents the haircut, which is a percentage of the market value of the collateral pledged. To the extent the market value of the asset collateralizing the financing transaction declines, the market value of our posted margin will be insufficient and we will be required to post additional collateral. Conversely, if the market value of the asset pledged increases in value, we would be over collateralized and we would be entitled to have excess margin returned to us by the counterparty. Our lenders typically value our pledged securities daily to ensure the adequacy of our margin and make margin calls as needed, as do we. Typically, but not always, the parties agree to a minimum threshold amount for margin calls so as to avoid the need for nuisance margin calls on a daily basis. Our master repurchase agreements do not specify the haircut; rather haircuts are determined on an individual repurchase transaction basis. Throughout the three months ended March 31, 2021, haircuts on our pledged collateral remained stable and as of March 31, 2021, our weighted average haircut was approximately 5.0% of the value of our collateral.

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

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

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

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

The following table summarizes the effect on our liquidity and cash flows from contractual obligations for repurchase agreements and interest expense on repurchase agreements.

(in thousands)

	Obligations Maturing				
	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
Repurchase agreements	$ 4,181,680	$ -	$ -	$ -	$ 4,181,680

Interest expense on repurchase agreements (1)	1,800	-	-	-	1,800
Totals	$ 4,183,480	$ -	$ -	$ -	$ 4,183,480

(1) Interest expense on repurchase agreements is based on current interest rates as of March 31, 2021 and the remaining term of the liabilities existing at that date.

In future periods, we expect to continue to finance our activities in a manner that is consistent with our current operations through repurchase agreements. As of March 31, 2021, we had cash and cash equivalents of $211.4 million. We generated cash flows of $149.7 million from principal and interest payments on our RMBS and had average repurchase agreements outstanding of $3,888.6 million during the three months ended March 31, 2021.

Stockholders' Equity

On January 23, 2020, we entered into the January 2020 Equity Distribution Agreement with three sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $200,000,000 of shares of our common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. We issued a total of 3,170,727 shares under the January 2020 Equity Distribution Agreement for aggregate gross proceeds of $19.8 million, and net proceeds of approximately $19.4 million, net of commissions and fees, prior to its termination in August 2020.

On August 4, 2020, we entered into the August 2020 Equity Distribution Agreement with four sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $150,000,000 of shares of our common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. Through March 31, 2021, we issued a total of 10,156,561 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $54.1 million and net proceeds of approximately $53.2 million, net of commissions and fees.

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

On March 2, 2021 we entered into the "March 2021 Underwriting Agreement with J.P. Morgan, relating to the offer and sale of 8,000,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the March 2021 Underwriting Agreement at $5.45 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 1,200,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on March 3, 2021. The closing of the offering of 9,200,000 shares of our common stock occurred on March 5, 2021, with net proceeds to us of approximately $50.1 million, net of offering expenses payable.

Outlook

Economic Summary

During the first quarter of 2021 the economy made tremendous strides towards recovery from the COVID-19 pandemic. Evidence of the recovery was pervasive. New cases of COVID-19, which peaked around the turn of the year, moderated significantly, as did hospitalizations and deaths. As a result of the U.S. Senate run-off elections in early January, both of which were won by Democrats, one party was now in control of the White House and both houses of Congress. This led the way to a relief stimulus package being passed that was at the high end of market expectations - $1.9 trillion. The American Rescue Plan act of 2021 was signed into law on March 11, 2021. This marked the third legislative act related to the nation's recovery from the COVID-19 pandemic, after the $2.2 trillion CARES Act (described below), which passed on March 27, 2020 and the $2.3 trillion Consolidated Appropriations Act of 2021, which contained $900 billion of COVID-19 relief and was signed on December 27, 2020. Given the momentum the administration had after passing the American Rescue Plan Act of 2021, President Biden shortly thereafter announced plans for a $2 trillion-plus infrastructure bill. The vaccine roll-out, which initially seemed haphazard, improved to the point where the U.S. became a world leader. The U.S. was well on its way to herd immunity as over 200 million inoculations were administered by April 21, 2021, well ahead of even the most optimistic projections at the beginning of the year. Economic data released over the course of the first quarter has been consistently very strong. Fueled by two rounds of stimulus checks during the first quarter, consumers have been spending. Retail sales, home sales, new cars and other durable goods are all benefitting from the stimulus and considerable pent-up demand. Job growth appears to be accelerating quickly, and the unemployment rate has dropped to 6.0%. All of the developments described above have stoked inflation fears. The most obvious evidence of potential price pressures relate to supply shortages of a variety of consumer goods and commodities caused by the combination of still constrained production and surging demand that have begun to surface across the economy.

The factors highlighted above have led to a surging economy, which grew at an annualized rate of 6.4% during the first quarter. They have also impacted the financial markets. The various broad equity indices are making new all-time highs on a frequent basis, and corporate debt issuance levels – both investment grade and high yield – are at or near record levels reflecting the demand for capital and investor appetite for yield. U.S. Treasury rates, at least longer-term rates, have risen significantly. The ten-year U.S. Treasury note yield increased from 0.916% to 1.742% over the course of the first quarter, an increase of 82.6 basis points, and the U.S. Treasury curve has steepened substantially. The market has moved up expectations for a recovery from the pandemic and return to normalcy significantly. The Federal Reserve (the “Fed”) gave a green light to higher rates, referring to them as a sign of economic strength. However, when the market has attempted to price in an acceleration to the timing of the rate increases by the Fed, the Fed has pushed back against such sentiment. These efforts have largely been successful, and current market pricing only reflects one interest rate hike by the end of 2022.

Legislative Response and the Federal Reserve

Congress passed the CARES Act quickly in response to the pandemic’s emergence last spring and followed with additional legislation over the ensuing months. However, as certain provisions of the CARES Act expired, such as supplemental unemployment insurance last July, there appeared to be a need for additional stimulus for the economy to deal with the surge in the pandemic that occurred as cold weather set in, particularly over the Christmas holiday. As mentioned above, the Federal government eventually passed an additional stimulus package in late December of 2020 and again in March of 2021. In addition, the Fed has provided, and continues to provide, as much support to the markets and the economy as it can within the constraints of its mandate. During the third quarter of 2020, the Fed unveiled a new monetary policy framework focused on average inflation rate targeting that allows the Fed Funds rate to remain quite low, even if inflation is expected to temporarily surpass the 2% target level. Further, the Fed will look past the presence of very tight labor markets, should they be present at the time. This marks a significant shift from their prior policy framework, which was focused on the unemployment rate as a key indicator of impending inflation. Adherence to this policy could steepen the U.S. Treasury curve as short-term rates could remain low for a considerable period but longer-term rates could rise given the Fed’s intention to let inflation potentially run above 2% in the future as the economy more fully recovers. As mentioned above, this appears to be occurring early in 2021 now that effective vaccines have been found and inoculations are distributed at an accelerating pace.

Interest Rates

Interest rates steadily increased throughout the first quarter as described above and levels of implied volatility rose as well. Mortgage rates slowly declined at the end of 2020 as originators added capacity and could handle ever increasing levels of production volume. This trend in mortgage rates quickly reversed during the first quarter of 2021 as rates began to increase, especially in late February and March. With the increase in interest rates, prepayment activity slowed. The percent of the Agency RMBS universe with sufficient rate incentive to economically refinance has declined from approximately 80% at the end of 2020 to approximately 46% at the end of the first quarter. However, the spread between rates available to borrowers and the implied yield on a current coupon mortgage, known as the primary/secondary spread, has continued to compress.

The spread is still slightly above long-term average levels so further compression is possible, meaning rates available to borrowers could remain at current levels even if U.S. Treasury rates increased further. Since the end of the first quarter, interest rates have declined by approximately 20 basis points in the case of the 10-year U.S. Treasury note. Accordingly, prepayment levels on RMBS securities are likely to remain high unless U.S. Treasury rates increase above current levels.

The Agency RMBS Market

The market conditions that prevailed throughout the first quarter were not conducive to mortgage performance. In fact, apart from high yield bonds, all fixed income sectors had negative returns for quarter. Interest rates rose rapidly, and volatility was elevated. Agency RMBS had negative absolute and excess returns for the first quarter of -1.2% and -0.3%, respectively (both vs U.S. Treasuries and LIBOR/swaps). There is a benefit to higher interest rates, and as interest rates rose, prepayment levels declined. The Mortgage Bankers Association refinance index declined from approximately 4700 in early January 2021 to approximately 2900 in early April 2021, before rebounding slightly in mid-April 2021. The Agency RMBS market continues to be essentially bifurcated with two separate and distinct sub-markets. Lower coupon fixed rate mortgages, coupons of 1.5% through 2.5%, are purchased by the Fed. Fed purchase activity maintains substantial price pressure under these coupons, and they benefit from attractive TBA dollar roll drops. Higher coupons in the TBA market do not have the benefit of Fed purchases. Importantly, the Fed tends to take the worst performing collateral out of the market. The absence of Fed purchases of higher coupons means the market is left to absorb still very high prepayment speeds on these securities as rates have not risen enough to eliminate the economic incentive to refinance. The market expects prepayments on higher coupons will eventually decline as “burn out” sets in – a phenomenon whereby refinancing activity declines as borrowers are exposed to refinance incentives for an extended period. Through the March 2021 prepayment report released in early April, this has yet to occur. While market participants continue to favor specified pools that have favorable prepayment characteristics that mute the refinance incentive, the premium over generic TBA securities has declined significantly with the reduced refinance incentive caused by the increase in rates available to borrowers.

Recent Legislative and Regulatory Developments

The Fed conducted large scale overnight repo operations from late 2019 until July 2020 to address disruptions in the U.S. Treasury, Agency debt and Agency MBS financing markets. These operations ceased in July 2020 after the central bank successfully tamed volatile funding costs that had threatened to cause disruption across the financial system.

The Fed has taken a number of other actions to stabilize markets as a result of the impacts of the COVID-19 pandemic. In March of 2020, the Fed announced a $700 billion asset purchase program to provide liquidity to the U.S. Treasury and Agency RMBS markets. The Fed also lowered the Fed Funds rate to a range of 0.0% – 0.25%, after having already lowered the Fed Funds rate by 50 bps earlier in the month. Later that same month the Fed announced a program to acquire U.S. Treasuries and Agency RMBS in the amounts needed to support smooth market functioning. With these purchases, market conditions improved substantially. Currently, the Fed is committed to purchasing $80 billion of U.S. Treasuries and $40 billion of Agency RMBS each month. Chairman Powell and the Fed have reiterated their commitment to this level of asset purchases at every meeting since their meeting on June 30, 2020. Chairman Powell has also maintained that the Fed expects to maintain interest rates at this level until the Fed is confident that the economy has weathered the pandemic and its impact on economic activity and is on track to achieve its maximum employment and price stability goals. The Fed has taken various other steps to support certain other fixed income markets, to support mortgage servicers and to implement various portions of the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act.

The CARES Act was passed by Congress and signed into law by President Trump on March 27, 2020. The CARES Act provided many forms of direct support to individuals and small businesses in order to stem the steep decline in economic activity. This over $2 trillion COVID-19 relief bill, among other things, provided for direct payments to each American making up to $75,000 a year, increased unemployment benefits for up to four months (on top of state benefits), funding to hospitals and health providers, loans and investments to businesses, states and municipalities and grants to the airline industry. On April 24, 2020, President Trump signed an additional funding bill into law that provides an additional $484 billion of funding to individuals, small businesses, hospitals, health care providers and additional coronavirus testing efforts. Various provisions of the CARES Act began to expire in July 2020, including a moratorium on evictions (July 25, 2020), expanded unemployment benefits (July 31, 2020), and a moratorium on foreclosures (August 31, 2020). On August 8, 2020, President Trump issued Executive Order 13945, directing the Department of Health and Human Services, the Centers for Disease Control and Prevention (“CDC”), the Department of Housing and Urban Development, and Department of the Treasury to take measures to temporarily halt residential evictions and foreclosures, including through temporary financial assistance.

On December 27, 2020, President Trump signed into law an additional $900 billion coronavirus aid package as part of the Consolidated Appropriations Act of 2021, providing for extensions of many of the CARES Act policies and programs as well as additional relief. The package provided for, among other things, direct payments to most Americans with a gross income of less than $75,000 a year, extension of unemployment benefits through March 14, 2021, funding for procurement of vaccines and health providers, loans to qualified businesses, funding for rental assistance and funding for schools. On January 29, 2021, the CDC issued guidance extending eviction moratoriums for covered persons through March 31, 2021, which was further extended to June 30, 2021 on March 29, 2021. In addition, on February 9, 2021, the FHFA announced that the foreclosure moratorium begun under the CARES Act for loans backed by Fannie Mae and Freddie Mac and the eviction moratorium for real estate owned by Fannie Mae and Freddie Mac were extended until March 31, 2021, which was further extended to June 30, 2021 on February 25, 2021. On February 16, 2021, the U.S. Housing and Urban Development Department announced the extension of the FHA eviction and foreclosure moratorium to June 30, 2021.

On March 11, 2021, the $1.9 trillion American Rescue Plan Act of 2021 was signed into law. This stimulus program furthers the Federal government’s efforts to stabilize the economy and provide assistance to sectors of the population still suffering from the various physical and economic effects of the pandemic.

In January 2019, the Trump administration made statements of its plans to work with Congress to overhaul Fannie Mae and Freddie Mac and expectations to announce a framework for the development of a policy for comprehensive housing finance reform. On September 30, 2019, the FHFA announced that Fannie Mae and Freddie Mac were allowed to increase their capital buffers to $25 billion and $20 billion, respectively, from the prior limit of $3 billion each. This step could ultimately lead to Fannie Mae and Freddie Mac being privatized and represents the first concrete step on the road to GSE reform. On June 30, 2020, the FHFA released a proposed rule on a new regulatory framework for the GSEs which seeks to implement both a risk-based capital framework and minimum leverage capital requirements. The final rule on the new capital framework for the GSEs was published in the federal register in December 2020. On January 14, 2021, the U.S. Treasury and the FHFA executed letter agreements allowing the GSEs to continue to retain capital up to their regulatory minimums, including buffers, as prescribed in the December rule. These letter agreements provide, in part, (i) there will be no exit from conservatorship until all material litigation is settled and the GSE has common equity Tier 1 capital of at least 3% of its assets, (ii) the GSEs will comply with the FHFA’s regulatory capital framework, (iii) higher-risk single-family mortgage acquisitions will be restricted to current levels, and (iv) the U.S. Treasury and the FHFA will establish a timeline and process for future GSE reform. However, no definitive proposals or legislation have been released or enacted with respect to ending the conservatorship, unwinding the GSEs, or materially reducing the roles of the GSEs in the U.S. mortgage market.

In 2017, policymakers announced that LIBOR will be replaced by December 31, 2021. The directive was spurred by the fact that banks are uncomfortable contributing to the LIBOR panel given the shortage of underlying transactions on which to base levels and the liability associated with submitting an unfounded level. The ICE Benchmark Administration, in its capacity as administrator of USD LIBOR, has confirmed that it will cease publication of (i) the one-week and two-month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021, and (ii) the overnight and one, three, six and 12-month USD LIBOR settings immediately following the LIBOR publication on June 30, 2023. A joint statement by key regulatory authorities calls on banks to cease entering into new contracts that use USD LIBOR as a reference rate by no later than December 31, 2021. The Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, has proposed replacing USD-LIBOR with a new SOFR, a rate based on U.S. repo trading. Many banks believe that it may take four to five years to complete the transition to SOFR, for certain, despite the 2021 deadline. We will monitor the emergence of this new rate carefully as it will potentially become the new benchmark for hedges and a range of investments. At this time, however, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR.

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

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

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

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

The scope and nature of the actions the U.S. government or the Fed will ultimately undertake are unknown and will continue to evolve, especially in light of the COVID-19 pandemic, President Biden's new administration and the new Congress in the United States.

Effect on Us

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

Effects on our Assets

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

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

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

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

As described above, the Agency RMBS market began to experience severe dislocations in mid-March 2020 as a result of the economic, health and market turmoil brought about by COVID-19. In March of 2020, the Fed announced that it would purchase Agency RMBS and U.S. Treasuries in the amounts needed to support smooth market functioning, which largely stabilized the Agency RMBS market, a commitment it reaffirmed at all subsequent Fed meetings, including its most recent meeting in April of 2021. If the Fed modifies, reduces or suspends its purchases of Agency RMBS, our investment portfolio could be negatively impacted. Further, the moratoriums on foreclosures and evictions described above will likely delay potential defaults on loans that would otherwise be bought out of Agency MBS pools as described above. Depending on the ultimate resolution of the foreclosure or evictions, when and if it occurs, these loans may be removed from the pool into which they were securitized. If this were to occur, it would have the effect of delaying a prepayment on the Company's securities until such time. As the majority of the Company's Agency RMBS assets were acquired at a premium to par, this will tend to increase the realized yield on the asset in question.

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

Effects on our borrowing costs

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

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

Summary

COVID-19 continues to dominate the performance of the markets and economy. In the case of the first quarter of 2021 this meant the recovery from the pandemic, in stark contrast to the first quarter of 2020 when the pandemic first emerged in the U.S. The recovery has been driven by many factors – the emergence and widespread distribution of a very effective vaccine, substantial government stimulus and accommodative monetary policy. The economy is recovering rapidly as the emergence of an effective vaccine has allowed pent-up demand to lead to a surge in demand for goods and services, fueled further by multiple rounds of stimulus checks and numerous other means of financial support provided by the government. Financial markets are benefitting from extremely lose financial conditions, abundant liquidity, high risk tolerance and an insatiable demand for returns.

The surge in economic activity during the first quarter of 2021 and expectations for activity to return to pre-pandemic levels much sooner than anticipated caused interest rates to rise rapidly as well. The yield on the 10-year U.S. Treasury increased by over 82 basis points and closed the quarter at approximately 1.75%, not far below the yield level that prevailed last January before the pandemic emerged last March. In addition, the U.S. Treasury curve has steepened as the market fears an outbreak in inflation caused by the combination of abundant liquidity via government stimulus, loose financial conditions and very strong demand for all types of goods and services. Constrained supply of needed raw materials, various inputs to consumer goods, such as micro chips, and even labor have exacerbated the upward pressure on prices. It remains to be seen if these price pressures prove to be temporary or lead to more sustained inflation. The Fed believes the effects are transitory. Current market pricing is roughly in line with the Fed's view as the Eurodollar and Fed Funds futures markets reflect at most one interest rate hike by the end of 2022.

The Agency RMBS market did not perform well during the first quarter as market conditions – rapidly rising rates and increased volatility – led to extension fears in mortgage cash flows, driving convexity related selling and spread widening. Agency RMBS had negative absolute and excess returns for the first quarter of 2021 of -1.2% and -0.3%, respectively (both vs U.S. Treasuries and LIBOR/swaps). A positive impact from higher rates and lowered prepayment expectations is slower premium amortization, which enhances net income all else equal. The Mortgage Bankers Association refinance index declined from approximately 4700 in early January 2021 to approximately 2900 in early April, before rebounding slightly in mid-April. As was the case for much of 2020, the Agency RMBS market continues to be essentially bifurcated with two separate and distinct sub-markets. Lower coupon fixed rate mortgages, coupons of 1.5% through 2.5%, are purchased by the Fed and benefit from substantial price pressure and attractive TBA dollar roll drops. Higher coupons in the TBA market do not have the benefit of Fed purchases, so the market is left to absorb still very high prepayment speeds on these securities as rates have not risen enough to eliminate the economic incentive to refinance. The market expects prepayments on higher coupons will eventually decline as "burn out" sets in, although this has yet to occur. One final element to poor MBS performance for the quarter was the impact of higher rates on the premiums paid for specified pools. The premium over generic TBA securities has declined significantly with the reduced refinance incentive caused by the increase in rates available to borrowers.

Now that the containment of the COVID-19 pandemic appears to be within sight, at least in the U.S., the economy and life as we were accustomed to should return to pre-pandemic norms. The key questions the market must grapple with going forward relate to whether there have been any permanent changes that will result, including, for example, inflationary pressures resulting from the unprecedented government stimulus and monetary quantitative easing by the Fed, the impact of many technological advancements that were born out of the pandemic, such as employees' ability to effectively work remotely, the desire to live in congested cities and the implications for commercial real estate values for the cities that many may not want to return to, and the willingness to gather in large numbers or travel by air. These factors will matter to the Company to the extent they impact the levels of interest rates and the efficacy of refinancing specifically, and economic activity and inflation generally.

Critical Accounting Estimates

Our condensed financial statements are prepared in accordance with GAAP. GAAP requires our management to make some complex and subjective decisions and assessments. Our most critical accounting estimates involve decisions and assessments which could significantly affect reported assets, liabilities, revenues and expenses. There have been no changes to our critical accounting estimates as discussed in our annual report on Form 10-K for the year ended December 31, 2020.

Capital Expenditures

At March 31, 2021, we had no material commitments for capital expenditures.

Off-Balance Sheet Arrangements

At March 31, 2021, we did not have any off-balance sheet arrangements.

Dividends

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

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

(in thousands, except per share amounts)

Year	Per Share Amount	Total
2013	$ 1.395	$ 4,662
2014	2.160	22,643
2015	1.920	38,748
2016	1.680	41,388
2017	1.680	70,717
2018	1.070	55,814
2019	0.960	54,421
2020	0.790	53,570
2021 - YTD (1)	0.260	23,374
Totals	$ 11.915	$ 365,337

(1) On April 14, 2021, the Company declared a dividend of $0.065 per share to be paid on May 26, 2021. The effect of this dividend is included in the table above, but is not reflected in the Company's financial statements as of March 31, 2021.

Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions will be determined by our Board of Directors consistent with our obligation to distribute to our stockholders at least 90% of our REIT taxable income on an annual basis in order to maintain our REIT qualification; in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

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

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

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

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

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

Prepayments on the loans underlying our RMBS can alter the timing of the cash flows from the underlying loans to us.

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

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

The following sensitivity analysis shows the estimated impact on the fair value of our interest rate-sensitive investments and hedge positions as of March 31, 2021 and December 31, 2020, assuming rates instantaneously fall 200 bps, fall 100 bps, fall 50 bps, rise 50 bps, rise 100 bps and rise 200 bps, adjusted to reflect the impact of convexity, which is the measure of the sensitivity of our hedge positions and Agency RMBS' effective duration to movements in interest rates.

All changes in value in the table below are measured as percentage changes from the investment portfolio value and net asset value at the base interest rate scenario. The base interest rate scenario assumes interest rates and prepayment projections as of March 31, 2021 and December 31, 2020.

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

Interest Rate Sensitivity[(1)]

Change in Interest Rate	Portfolio Market Value[(2)(3)]	Book Value[(2)(4)]
As of March 31, 2021		
-200 Basis Points	(0.93)%	(8.66)%
-100 Basis Points	0.03%	0.29%
-50 Basis Points	0.20%	1.87%
+50 Basis Points	(0.60)%	(5.61)%
+100 Basis Points	(1.45)%	(13.50)%
+200 Basis Points	(3.57)%	(33.27)%
As of December 31, 2020		
-200 Basis Points	2.43%	21.85%
-100 Basis Points	1.35%	12.08%
-50 Basis Points	0.69%	6.18%
+50 Basis Points	(0.90)%	(8.03)%
+100 Basis Points	(2.39)%	(21.42)%
+200 Basis Points	(6.60)%	(59.22)%

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

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

Prepayment Risk

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

Spread Risk

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

Liquidity Risk

The primary liquidity risk for us arises from financing long-term assets with shorter-term borrowings through repurchase agreements. Our assets that are pledged to secure repurchase agreements are Agency RMBS and cash. As of March 31, 2021, we had unrestricted cash and cash equivalents of $211.4 million and unpledged securities of approximately $218.0 million (not including securities pledged to us) available to meet margin calls on our repurchase agreements and derivative contracts, and for other corporate purposes. However, should the value of our Agency RMBS pledged as collateral or the value of our derivative instruments suddenly decrease, margin calls relating to our repurchase and derivative agreements could increase, causing an adverse change in our liquidity position. Further, there is no assurance that we will always be able to renew (or roll) our repurchase agreements. In addition, our counterparties have the option to increase our haircuts (margin requirements) on the assets we pledge against repurchase agreements, thereby reducing the amount that can be borrowed against an asset even if they agree to renew or roll the repurchase agreement. Significantly higher haircuts can reduce our ability to leverage our portfolio or even force us to sell assets, especially if correlated with asset price declines or faster prepayment rates on our assets.

Extension Risk

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

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

Counterparty Credit Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

A description of certain factors that may affect our future results and risk factors is set forth in our Annual Report on Form 10-K for the year ended December 31, 2020. As of March 31, 2021, there have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2020.

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

The table below presents the Company's share repurchase activity for the three months ended March 31, 2021.

	Total Number of Shares Repurchased [1]	Weighted-Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Programs [2]	Maximum Number of Shares That May Yet Be Repurchased Under the Authorization [2]
January 1, 2021 - January 31, 2021	-	$ -	-	837,311
February 1, 2021 - February 28, 2021	-	-	-	837,311
March 1, 2021 - March 31, 2021	50,577	5.88	-	837,311
Totals / Weighted Average	50,577	$ 5.88	-	837,311

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

(2) On July 29, 2015, the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock. On February 8, 2018, the Board of Directors approved an increase in the stock repurchase program for up to an additional 4,522,822 shares of the Company's common stock. Unless modified or revoked by the Board, the authorization does not expire.

The Company did not have any unregistered sales of its equity securities during the three months ended March 31, 2021.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.

3.1	Articles of Amendment and Restatement of Orchid Island Capital, Inc. (filed as Exhibit 3.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-184538) filed on November 28, 2012 and incorporated herein by reference).
3.2	Certificate of Correction of Orchid Island Capital, Inc. (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on February 22, 2019 and incorporated herein by reference).
3.3	Amended and Restated Bylaws of Orchid Island Capital, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 19, 2019 and incorporated herein by reference).
4.1	Specimen Certificate of common stock of Orchid Island Capital, Inc. (filed as Exhibit 4.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-184538) filed on November 28, 2012 and incorporated herein by reference).
10.1	2021 Long-Term Incentive Compensation Plan*†
31.1	Certification of Robert E. Cauley, Chief Executive Officer and President of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of George H. Haas, IV, Chief Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Robert E. Cauley, Chief Executive Officer and President of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of George H. Haas, IV, Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

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

* Filed herewith.
** Furnished herewith.
*** Submitted electronically herewith.
† Management contract or compensatory plan.

Signatures

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

Orchid Island Capital, Inc
Registrant

Date:	April 30, 2021	By:	/s/ Robert E. Cauley
			Robert E. Cauley Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)
Date:	April 30, 2021	By:	/s/ George H. Haas, IV
			George H. Haas, IV Secretary, Chief Financial Officer, Chief Investment Officer and Director (Principal Financial and Accounting Officer)

Exhibit 10.1

ORCHID ISLAND CAPITAL, INC.

2021 LONG-TERM EQUITY INCENTIVE COMPENSATION PLAN

This 2021 Long-Term Equity Incentive Compensation Plan (the “2021 Plan”) sets forth terms and conditions on which equity awards may be made by Orchid Island Capital, Inc. (the “Company”).

All employees of Bimini Advisors, LLC, which is the Company’s external manager (the “Manager”), and employees of entities affiliated with the Manager (collectively, the “Employees”) are eligible to participate in the 2021 Plan. Members of our Manager’s and its affiliates’ senior management team also serve as the Company’s executive officers, including the Company’s Chief Executive Officer and Chief Financial Officer. All of the Employees are referred to as “Participants.” Being a Participant does not entitle the individual to an award under the 2021 Plan. The Compensation Committee of the Board of Directors of the Company (the “Committee”) will have absolute sole discretion over all aspects of the 2021 Plan, including but not limited to the ability to reduce the amount of any bonus award or the size of the bonus pool even if the performance objectives and other terms of the 2021 Plan are satisfied and to adjust the Company’s book value for purposes of the 2021 Plan due to dilutive issuances of the Company’s common stock.

Participants will be eligible to earn awards under the 2021 Plan for performance over the next one-year, three-year and five-year periods. A bonus pool will be established under the 2021 Plan for each of the one-, three- and five-year measurement periods. The amount credited to the bonus pool will be based on the Company’s performance under each of the three performance criteria (which are described below) of the 2021 Plan for each of the three measurement periods. The Committee, in its discretion, will determine each Participant’s award (*i.e.*, the percentage of the bonus pool paid to each Participant).

The maximum amount that may be credited to the bonus pool for each measurement period will equal the average management fees paid by the Company to the Manager (pursuant to the terms of the management agreement between the Company and the Manager) for such period multiplied by the applicable percentage described in the table below. Under the 2021 Plan, the maximum bonus pool for awards to be issued for performance during (i) the one-year measurement period will equal 20% of the average monthly management fee earned during 2021 multiplied by 12, (ii) the three-year measurement period will equal 35% of the average annual management fee paid for 2021 through 2023 and (iii) for the five-year measurement period will equal 45% of the average annual management fee paid for 2021 through 2025.

As noted above, the amount credited to the bonus pool for each measurement period will reflect the Company’s performance measured against the three performance criteria described below. The table below illustrates the maximum amount that may be credited to the bonus pool for each measurement period (as a percentage of the average management fees for the applicable period). The table also shows the amount that may be credited to the bonus pool for each measurement period (also as a percentage of the average management fees for the applicable period) for achievement of objectives with respect to each of the performance criteria. For example, the maximum amount that may be credited to the bonus pool for the three-year measurement period based on Agency RMBS rate (as defined below) relative performance is 10.50% of the average management fees paid for 2021 through 2023.

	1-year	3-year	5-year
Peer-relative financial performance	9.00%	15.75%	20.25%
Agency RMBS rate relative performance	6.00%	10.50%	13.50%
Peer-relative book value performance	5.00%	8.75%	11.25%
Total for Measurement Period	120.00%	335.00%	545.00%

The Committee established the following performance measures and the performance thresholds that must be satisfied for awards to be earned under the 2021 Plan.

Peer-Relative Financial Performance. No amount will be earned for this performance measure unless the Company's financial performance for the applicable measurement period exceeds the mean of the financial performance of the companies in the Peer Group (defined below) for the applicable measurement period. The financial performance of the Company and those in the Peer Group will equal the sum of total dividends paid during the measurement period and the change in book value during the measurement period divided by the book value on the first day of the applicable measurement period. The "Peer Group" consists of the following companies: AGNC Investment Corp., Annaly Capital Management, Inc., Arlington Asset Investment Corp., ARMOUR Residential REIT, Inc., Capstead Mortgage Corporation, Cherry Hill Mortgage Investment Corporation, Dynex Capital, Inc. and Invesco Mortgage Capital Inc. In the event that a company in the Peer Group merges with another entity, sells all or a significant portion of its business, dissolves, liquidates or the Committee determines that a company has substantially changed its business in such a way that it no longer conducts a similar business to the Company's business, then such company will be removed from the Peer Group for the measurement period(s) when such event occurs.

Agency RMBS Rate Relative Performance. The Company's performance under this performance measure will equal the sum of the change in book value during the applicable measurement period and total dividends paid during the measurement period. No amount will be earned for this performance measure unless the Company's performance as calculated in the preceding sentence for the applicable measurement period exceeds the Agency RMBS rate multiplied by the number of years in the measurement period. The "Agency RMBS rate" will equal the yield on the Fannie Mae 30-year fixed rate current coupon mortgage as of the beginning of 2021 of 1.342% (determined by averaging the rate as of the last business day of 2020 and the first business day of 2021) plus 400 bps, or 5.342%.

Peer-Relative Book Value Performance. No amount will be earned for this performance measure unless the Company's change in book value for the applicable measurement period (calculated in accordance with the following sentence) exceeds the mean change in book value for the companies in the Peer Group. The change in book value for the Company and those in the Peer Group will be determined by subtracting the book value on the first day of the measurement period from the book value on the last day in the measurement period, with such amount divided by the book value on the first day of the measurement period.

If the Company's results for a performance measure equal or are less than the threshold for a measurement period, no amount will be added to the bonus pool for the measurement period with respect to that measurement criterion. The table below details the amounts by which the Company's performance must exceed the threshold performance measures described above for the maximum bonus award to be added to the bonus pool. Linear interpolation will be used for results falling between the threshold and the result that must be achieved to earn the maximum award.

	1-year	3-year	5-year
Peer-relative financial performance	Threshold + 5.0%	Threshold + 10.0%	Threshold + 15.0%
Agency RMBS rate relative performance	Threshold + 5.0%	Threshold + 10.0%	Threshold + 15.0%
Peer-relative book value performance	Threshold + 2.0%	Threshold + 4.0%	Threshold + 6.0%

Awards for these three measurement periods will be paid no later than March 30 of the year following the end of the relevant measurement period. The Committee anticipates that 50% of earned bonuses will be paid in unrestricted shares of the Company's common stock and 50% will be paid in the form of "Performance Units," all of which will be issued under the 2012 Equity Incentive Plan (the "2012 Plan"). The number of unrestricted shares of the Company's common stock and Performance Units to be issued in satisfaction of the earned bonuses will be determined by dividing the amount of such bonus by the average closing price of the Company's common stock on the New York Stock Exchange for the 10 trading days preceding the grant date of the common stock and Performance Units rounded to the nearest whole number. The Performance Units will vest at the rate of 10% per quarter commencing with the first quarter after the one year anniversary of the end of the applicable measurement period, with the Participant receiving one share of the Company's common stock for each Performance Unit that vests. The Participant must continue to be employed by the Company as of the end of each such quarter in order to vest in the number of Performance Units scheduled to vest on that date. In the event of a Change in Control (as defined in the 2012 Plan) or the death or disability of the Participant, all of his or her Performance Units will be vested. When vested, each Performance Unit will be settled by the issuance of one share of the Company's common stock, at which time the Performance Unit shall be cancelled immediately, but in no case later than March 30 of the year after the year in which the Performance Units vest.

The Performance Units will contain dividend equivalent rights which entitle the Participants to receive distributions declared by the Company on common stock. One

Performance Unit is equivalent to one share of common stock for purposes of the dividend equivalent rights. Other than dividend equivalent rights, the Performance Units do not entitle the Participants to any of the rights of a stockholder of the Company.

The number of outstanding Performance Units will be subject to the following adjustments prior to the date on which such Performance Unit vests:

Book Value Impairment. A “Book Value Impairment” will occur if over any two consecutive quarters the following conditions are satisfied: (i) the Company’s book value per share declines by 15% or more during the first of such two quarters and (ii) the Company’s book value per share decline from the beginning of such two quarters to the end of such two quarters is at least 10%. If a Book Value Impairment occurs, then the number of Performance Units that are outstanding as of the last day of such two quarter period shall be reduced by 15%.

Extraordinary Book Value Preservation. “Extraordinary Book Value Preservation” will occur in any quarter in which the following conditions are satisfied: (i) the median change in the book value per share of the companies in the Peer Group (the “Median Book Value Decline”) is a decline of 6% or more and (ii) the Company’s book value per share either (a) increases or (b) declines by a percentage that is less than 50% of the Median Book Value Decline. If an event of Extraordinary Book Value Preservation occurs, then the number of Performance Units that are outstanding as of the last day of the quarter in which the Extraordinary Book Value Preservation has occurred shall be increased by 5 basis points for every 1 basis point of difference between the Company’s book value per share percentage change and the Median Book Value Decline during such quarter.

Outperform All Peer Companies. The Company will “Outperform All Peer Companies” in any quarter in which the following conditions are satisfied: (i) the companies in the Peer Group all experience a decline in book value per share and (ii) the Company’s book value per share either (a) increases or (b) declines by an amount that is less than the decline experienced by each company in the Peer Group. If the Company Outperforms All Peer Companies in any quarter, then the number of Performance Units that are outstanding as of the last day of such quarter shall increase by 10%.

The Committee anticipates adopting similar plans for future years with modifications to the performance measures and hurdle rates as the Committee deems appropriate.

Exhibit 31.1

CERTIFICATIONS

I, Robert E. Cauley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Orchid Island Capital, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2021

/s/ Robert E. Cauley

Robert E. Cauley
Chairman of the Board, Chief Executive Officer and President

Exhibit 31.2

CERTIFICATIONS

I, George H. Haas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Orchid Island Capital, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2021

/s/ George H. Haas, IV

George H. Haas, IV
Chief Financial Officer

Exhibit 32.1

CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350

In connection with the quarterly report on Form 10-Q of Orchid Island Capital, Inc. (the “Company”) for the period ended March 31, 2021 to be filed with the Securities and Exchange Commission on or about the date hereof (the ”Report”), I, Robert E. Cauley, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

April 30, 2021	/s/ Robert E. Cauley
	Robert E. Cauley, Chairman of the Board and Chief Executive Officer

Exhibit 32.2

CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350

In connection with the quarterly report on Form 10-Q of Orchid Island Capital, Inc. (the “Company”) for the period ended March 31, 2021 to be filed with the Securities and Exchange Commission on or about the date hereof (the ”Report”), I, George H. Haas, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

April 30, 2021

/s/ George H. Haas, IV
George H. Haas, IV
Chief Financial Officer