UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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**

ORCHIDISLAND CAPITAL

Orchid Island Capital, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

Number of shares outstanding at July 30, 2021: 123,060,013

ORCHID ISLAND CAPITAL, INC.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited) June 30, 2021	December 31, 2020
ASSETS:		
Mortgage-backed securities, at fair value		
Pledged to counterparties	$ 4,665,578	$ 3,719,906
Unpledged	5,661	6,989
Total mortgage-backed securities	4,671,239	3,726,895
Cash and cash equivalents	272,842	220,143
Restricted cash	106,876	79,363
Accrued interest receivable	12,547	9,721
Derivative assets	43,735	20,999
Receivable for securities sold, pledged to counterparties	-	414
Other assets	688	516
Total Assets	$ 5,107,927	$ 4,058,051
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	$ 4,514,704	$ 3,595,586
Dividends payable	7,663	4,970
Derivative liabilities	16,769	33,227
Accrued interest payable	1,042	1,157
Due to affiliates	794	632
Other liabilities	13,134	7,188
Total Liabilities	4,554,106	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 June 30, 2021 and December 31, 2020	-	-
Common Stock, $0.01 par value; 500,000,000 shares authorized, 117,500,013 shares issued and outstanding as of June 30, 2021 and 76,073,317 shares issued and outstanding as of December 31, 2020	1,175	761
Additional paid-in capital	616,874	432,524
Accumulated deficit	(64,228)	(17,994)
Total Stockholders' Equity	553,821	415,291
Total Liabilities and Stockholders' Equity	$ 5,107,927	$ 4,058,051

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020
($ in thousands, except per share data)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020
Interest income	$ 56,110	$ 62,929	$ 29,254	$ 27,258
Interest expense	(3,497)	(21,002)	(1,556)	(4,479)
Net interest income	52,613	41,927	27,698	22,779
Realized (losses) gains on mortgage-backed securities	(6,045)	(25,020)	1,352	3,360
Unrealized (losses) gains on mortgage-backed securities	(96,147)	37,272	(7,281)	34,240
Gains (losses) on derivative and other hedging instruments	10,557	(91,709)	(34,915)	(8,851)
Net portfolio (loss) income	(39,022)	(37,530)	(13,146)	51,528
Expenses:				
Management fees	3,413	2,645	1,792	1,268
Allocated overhead	799	695	395	348
Accrued incentive compensation	625	(275)	261	161
Directors' fees and liability insurance	595	508	323	248
Audit, legal and other professional fees	620	601	302	346
Direct REIT operating expenses	715	446	294	240
Other administrative	445	277	352	145
Total expenses	7,212	4,897	3,719	2,756
Net (loss) income	$ (46,234)	$ (42,427)	$ (16,865)	$ 48,772
Basic net (loss) income per share	$ (0.50)	$ (0.65)	$ (0.17)	$ 0.74
Diluted net (loss) income per share	$ (0.50)	$ (0.65)	$ (0.17)	$ 0.73
Weighted Average Shares Outstanding	92,456,082	65,408,722	99,489,065	66,310,219
Dividends declared per common share	$ 0.390	$ 0.405	$ 0.195	$ 0.165

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Three and Six Months Ended June 30, 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
Net income	-		-		-		48,772		48,772
Cash dividends declared	-		-		(10,935)		-		(10,935)
Stock based awards and amortization	4		-		55		-		55
Shares repurchased and retired	(20)		-		(68)		-		(68)
Balances, June 30, 2020	66,221	$	662	$	407,855	$	(62,549)	$	345,968
Balances, January 1, 2021	76,073	$	761	$	432,524	$	(17,994)	$	415,291
Net loss	-		-		-		(29,369)		(29,369)
Cash dividends declared	-		-		(17,226)		-		(17,226)
Issuance of common stock pursuant to public offerings, net	18,248		182		96,726		-		96,908
Stock based awards and amortization	90		1		571		-		572
Balances, March 31, 2021	94,411	$	944	$	512,595	$	(47,363)	$	466,176
Net loss	-		-		-		(16,865)		(16,865)
Cash dividends declared	-		-		(20,416)		-		(20,416)
Issuance of common stock pursuant to public offerings, net	23,087		231		124,515		-		124,746
Stock based awards and amortization	2		-		180		-		180
Balances, June 30, 2021	117,500	$	1,175	$	616,874	$	(64,228)	$	553,821

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Six Months Ended June 30, 2021 and 2020
($ in thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (46,234)	$ (42,427)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock based compensation	429	114
Realized and unrealized losses (gains) on mortgage-backed securities	102,192	(12,252)
Realized and unrealized (gains) losses on interest rate swaptions	(4,838)	5,090
Realized and unrealized gains on interest rate floors	(1,384)	-
Realized and unrealized (gains) losses on interest rate swaps	(12,650)	64,357
Realized and unrealized losses on U.S. Treasury securities	-	131
Realized losses on forward settling to-be-announced securities	5,389	5,244
Changes in operating assets and liabilities:		
Accrued interest receivable	(2,826)	2,163
Other assets	(172)	(580)
Accrued interest payable	(115)	(10,395)
Other liabilities	(1,305)	671
Due to (from) affiliates	162	(53)
NET CASH PROVIDED BY OPERATING ACTIVITIES	38,648	12,063
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(2,986,864)	(1,985,756)
Sales	1,680,903	2,023,334
Principal repayments	259,425	260,834
Proceeds from U.S. Treasury securities	-	139,712
Net payments on reverse repurchase agreements	-	(139,738)
Payments on net settlement of to-be-announced securities	(3,077)	(6,888)
Purchase of derivative financial instruments, net of margin cash received	(14,369)	(64,190)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,063,982)	227,308
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	13,582,422	20,879,112
Principal payments on repurchase agreements	(12,663,304)	(21,152,479)
Cash dividends	(34,927)	(28,008)
Proceeds from issuance of common stock, net of issuance costs	221,654	19,447
Shares withheld from employee stock awards for payment of taxes	(299)	(68)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,105,546	(281,996)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	80,212	(42,625)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period	299,506	278,655
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period	$ 379,718	$ 236,030
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 3,611	$ 31,397

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

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

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

On June 22, 2021, Orchid entered into an equity distribution agreement (the "June 2021 Equity Distribution Agreement") with four sales agents pursuant to which the Company may offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of the Company's common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. Through June 30, 2021, the Company issued a total of 5,750,000 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $31.1 million, and net proceeds of approximately $30.6 million, after commissions and fees. Subsequent to June 30, 2021 and through July 30, 2021, the Company issued a total of 5,560,000 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $28.6 million, and net proceeds of approximately $28.2 million, after commissions and fees.

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 June 30, 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, it may have a material adverse effect 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 six and three month period ended June 30, 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 June 30, 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)

	June 30, 2021	December 31, 2020
Cash and cash equivalents	$ 272,842	$ 220,143
Restricted cash	106,876	79,363
Total cash, cash equivalents and restricted cash	$ 379,718	$ 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 June 30, 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

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 June 30, 2021 and December 31, 2020:

(in thousands)

		June 30, 2021		December 31, 2020
Pass-Through RMBS Certificates:				
Fixed-rate Mortgages	$	4,574,539	$	3,560,746
Fixed-rate CMOs		-		137,453
Total Pass-Through Certificates		4,574,539		3,698,199
Structured RMBS Certificates:				
Interest-Only Securities		92,709		28,696
Inverse Interest-Only Securities		3,991		-
Total Structured RMBS Certificates		96,700		28,696
Total	$	4,671,239	$	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 June 30, 2021, the Company had met all margin call requirements.

As of June 30, 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
June 30, 2021										
Fair market value of securities pledged, including accrued interest receivable	$	105,929	$	2,988,154	$	1,558,174	$	25,814	$	4,678,071
Repurchase agreement liabilities associated with these securities	$	101,075	$	2,882,437	$	1,506,293	$	24,899	$	4,514,704
Net weighted average borrowing rate		0.14%		0.13%		0.13%		0.15%		0.13%
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 $79.1 million and $58.8 million as of June 30, 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 June 30, 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 $245.1 million. The Company did not have an amount at risk with any individual counterparty that was greater than 10% of the Company's equity at June 30, 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 June 30, 2021 and December 31, 2020.

(in thousands)

Derivative and Other Hedging Instruments	Balance Sheet Location	June 30, 2021	December 31, 2020
Assets			
Interest rate swaps	Derivative assets, at fair value	$ 14,263	$ 7
Payer swaptions (long positions)	Derivative assets, at fair value	26,282	17,433
Interest rate floors	Derivative assets, at fair value	2,315	-
TBA securities	Derivative assets, at fair value	875	3,559
Total derivative assets, at fair value		$ 43,735	$ 20,999
Liabilities			
Interest rate swaps	Derivative liabilities, at fair value	$ 6,411	$ 24,711
Payer swaptions (short positions)	Derivative liabilities, at fair value	10,358	7,730
TBA securities	Derivative liabilities, at fair value	-	786
Total derivative liabilities, at fair value		$ 16,769	$ 33,227
Margin Balances Posted to (from) Counterparties			
Futures contracts	Restricted cash	$ 2,548	$ 489
TBA securities	Restricted cash	-	284
TBA securities	Other liabilities	(773)	(2,520)
Interest rate swaption contracts	Restricted cash	1,115	-
Interest rate swaption contracts	Other liabilities	(11,414)	(3,563)
Interest rate swap contracts	Restricted cash	24,140	19,761
Total margin balances on derivative contracts		$ 15,616	$ 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 June 30, 2021 and December 31, 2020.

($ in thousands)

	June 30, 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	1.00%	0.17%	$ (207)
Treasury Note Futures Contracts (Short Positions)[2]				
September 2021 5-year T-Note futures				
(Sep 2021 - Sep 2026 Hedge Period)	$ 269,000	1.08%	1.16%	$ 788
September 2021 10-year Ultra futures				
(Sep 2021 - Sep 2031 Hedge Period)	$ 23,500	1.19%	1.02%	$ (608)

($ in thousands)

	December 31, 2020					
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	1.03%	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) 5-Year T-Note futures contracts were valued at a price of $123.43 at June 30, 2021 and $126.16 at December 31, 2020. The contract values of futures contracts for the short positions were $32.0 million and $87.1 million at June 30, 2021 and December 31, 2020, respectively. 10-Year Ultra futures contracts were valued at a price of $147.20 at June 30, 2021. The contract value of the short position was $34.6 million at June 30, 2021.

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 June 30, 2021 and December 31, 2020.

($ in thousands)

		Notional Amount	**Average Fixed Pay Rate**	**Average Receive Rate**		**Net Estimated Fair Value**	**Average Maturity (Years)**
June 30, 2021							
Expiration > 3 to ≤ 5 years	$	955,000	0.64%	0.16%	$	8,134	4.5
Expiration > 5 years		400,000	1.16%	0.13%		(282)	7.8
	$	1,355,000	0.79%	0.15%	$	7,852	5.5
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 June 30, 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	$	1,146
February 3, 2023		80,000		504	1.10%	10Y2Y		1,169
	$	150,000	$	1,015	0.94%			2,315

The table below presents information related to the Company's interest rate swaption positions at June 30, 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)
June 30, 2021							
Payer Swaptions - long							
≤ 1 year	$ 4,000	$ 1,959	9.2	$ 400,000	1.66%	3 Month	5.0
>1 year ≤ 2 years	25,390	24,323	19.1	1,027,200	2.20%	3 Month	15.0
	$ 29,390	$ 26,282	16.3	$ 1,427,200	2.05%	3 Month	12.2
Payer Swaptions - short							
≤ 1 year	$ (13,400)	$ (10,358)	7.8	$ (1,182,850)	2.10%	3 Month	11.6
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 June 30, 2021 and December 31, 2020.

($ in thousands)

	Notional Amount Long (Short)(1)	Cost Basis(2)	Market Value(3)	Net Carrying Value(4)
June 30, 2021				
30-Year TBA securities:				
3.0%	$ (400,000)	$ (417,750)	$ (416,875)	$ 875
Total	$ (400,000)	$ (417,750)	$ (416,875)	$ 875
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 six and three months ended June 30, 2021 and 2020.

(in thousands)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Three Months Ended June 30 2021	Three Months Ended June 30 2020
Eurodollar futures contracts (short positions)	$ (7)	$ (8,318)	$ (19)	$ (101)
T-Note futures contracts (short position)	285	(4,724)	(2,191)	(385)
Interest rate swaps	9,446	(68,202)	(17,677)	(7,579)
Payer swaptions (short positions)	1,212	(889)	27,379	(889)
Payer swaptions (long positions)	3,710	(4,201)	(36,360)	(1,612)

Interest rate floors	1,300	-	(84)	-
TBA securities (short positions)	3,170	(6,377)	(5,963)	713
TBA securities (long positions)	(8,559)	1,133	-	1,133
U.S. Treasury securities (short positions)	-	(131)	-	(131)
Total	$ 10,557	$ (91,709)	$ (34,915)	$ (8,851)

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 June 30, 2021 and December 31, 2020.

(in thousands)

	June 30, 2021			December 31, 2020		
Assets Pledged to Counterparties	Repurchase Agreements	Derivative Agreements	Total	Repurchase Agreements	Derivative Agreements	Total
PT RMBS - fair value	$ 4,570,053	$ -	$ 4,570,053	$ 3,692,811	$ -	$ 3,692,811
Structured RMBS - fair value	95,525	-	95,525	27,095	-	27,095
Accrued interest on pledged securities	12,493	-	12,493	9,636	-	9,636
Restricted cash	79,073	27,803	106,876	58,829	20,534	79,363
Total	$ 4,757,144	$ 27,803	$ 4,784,947	$ 3,788,371	$ 20,534	$ 3,808,905

Assets Pledged from Counterparties

The table below summarizes assets pledged to us from counterparties under our repurchase agreements, reverse repurchase agreements and derivative agreements as of June 30, 2021 and December 31, 2020.

(in thousands)

	June 30, 2021			December 31, 2020		
Assets Pledged to Orchid	Repurchase Agreements	Derivative Agreements	Total	Repurchase Agreements	Derivative Agreements	Total
Cash	$ -	$ 12,187	$ 12,187	$ 120	$ 6,083	$ 6,203

U.S. Treasury securities - fair value	-	-	-	253	-	253
Total	$ -	$ 12,187	$ 12,187	$ $ 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 June 30, 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
June 30, 2021						
Interest rate swaps	$ 14,263	$ -	$ 14,263	$ -	$ -	$ 14,263
Interest rate swaptions	26,282	-	26,282	-	(11,414)	14,868
Interest rate floors	2,315	-	2,315	-	-	2,315
TBA securities	875	-	875	-	(773)	102
	$ 43,735	$ -	$ 43,735	$ -	$ (12,187)	$ 31,548
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
June 30, 2021						
Repurchase Agreements	$ 4,514,704	$ -	$ 4,514,704	$ (4,435,631)	$ (79,073)	$ -
Interest rate swaps	6,411	-	6,411	-	(6,411)	-
Interest rate swaptions	10,358	-	10,358	-	(1,115)	9,243
	$ 4,531,473	$ -	$ 4,531,473	$ (4,435,631)	$ (86,599)	$ 9,243
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 six months ended June 30, 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
At the Market Offering Programs (3)	Second Quarter	5.40	23,087,089	124,746
Total			41,335,137	$ 221,654
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 nine equity distribution agreements, eight 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 June 30, 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 six months ended June 30, 2021. During the six months ended June 30, 2020, the Company repurchased a total of 29,891 shares at an aggregate cost of approximately $0.1 million, including commissions and fees, for a weighted average price of $3.42 per share. The remaining authorization under the repurchase program as of June 30, 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)	0.455	45,460
Totals	$ 12.110	$ 387,423

(1) On July 14, 2021, the Company declared a dividend of $0.065 per share to be paid on August 27, 2021. The effect of this dividend is included in the table above but is not reflected in the Company's financial statements as of June 30, 2021.

NOTE 8. STOCK INCENTIVE PLAN

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

Performance Units

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

The following table presents information related to Performance Units outstanding during the six months ended June 30, 2021 and 2020.

($ in thousands, except per share data)

	Six Months Ended June 30,					
	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	(4,554)		7.45	(8,305)		8.20
Unvested, end of period	137,897	$	5.88	10,716	$	7.45
Compensation expense during period		$	113		$	25
Unrecognized compensation expense, end of period		$	702		$	17
Intrinsic value, end of period		$	716		$	50
Weighted-average remaining vesting term (in years)			1.9			0.6

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 Plans to certain executive officers and employees of its Manager. The following table presents information related to fully vested common stock issued during the six months ended June 30, 2021 and 2020. All of the fully vested shares of common stock issued during the three months ended June 30, 2021, and the related compensation expense, were granted with respect to service performed during the previous fiscal year.

($ in thousands, except per share data)

	Six Months Ended June 30,			
		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 six 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 receive a portion of their compensation in the form of deferred stock unit awards ("DSUs") pursuant to the Incentive Plans. Each DSU represents a right to receive one share of the Company's common stock. 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 six months ended June 30, 2021 and 2020.

($ in thousands, except per share data)

	Six Months Ended June 30,			
	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	22,528	5.64	25,518	3.99
Issued	-	-	-	-
Outstanding, end of period	113,474	$ 5.48	69,088	$ 5.61
Compensation expense during period		$ 120		$ 90
Intrinsic value, end of period		$ 589		$ 325

NOTE 9. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any reported or unreported contingencies at June 30, 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 six and three months ended June 30, 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 six and three months ended June 30, 2021 and 2020.

(in thousands, except per share information)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020
Basic and diluted EPS per common share:				
Numerator for basic and diluted EPS per share of common stock:				
Net (loss) income - Basic and diluted	$ (46,234)	$ (42,427)	$ (16,865)	$ 48,772
Weighted average shares of common stock:				
Shares of common stock outstanding at the balance sheet date	117,500	66,221	117,500	66,221
Unvested dividend eligible share based compensation outstanding at the balance sheet date	-	-	-	80
Effect of weighting	(25,044)	(812)	(18,011)	9
Weighted average shares-basic and diluted	92,456	65,409	99,489	66,310
Net (loss) income per common share:				
Basic	$ (0.50)	$ (0.65)	$ (0.17)	$ 0.74
Diluted	$ (0.50)	$ (0.65)	$ (0.17)	$ 0.73
Anti-dilutive incentive shares not included in calculation.	251	80	251	-

NOTE 12. FAIR VALUE

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

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

The Company's RMBS and TBA securities are Level 2 valuations, and such valuations currently are determined by the Company based on independent pricing sources and/or third party broker quotes, 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 six and three months ended June 30, 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 June 30, 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)
June 30, 2021			
Mortgage-backed securities	$ -	$ 4,671,239	$ -
Interest rate swaps	-	7,851	-
Interest rate swaptions	-	15,925	-
Interest rate floors	-	2,315	-
TBA securities	-	875	-
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 six and three months ended June 30, 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 $4.2 million and $2.2 million for the six and three months ended June 30, 2021, respectively, and $3.2 million and $1.6 million for the six and three months ended June 30, 2020, respectively. At June 30, 2021 and December 31, 2020, the net amount due to affiliates was approximately $0.8 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 June 30, 2021, Bimini owned 2,595,357 shares, or 1.2%, 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, after 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 could offer and sell, from time to time, up to an aggregate amount of $150,000,000 of shares of our common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. We issued a total of 27,493,650 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $150.0 million, and net proceeds of approximately $147.4 million, after commissions and fees, prior to its termination in June 2021.

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

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

On June 22, 2021, we entered into an equity distribution agreement (the “June 2021 Equity Distribution Agreement”) with four sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of our common stock in transactions that are deemed to be “at the market” offerings and privately negotiated transactions. Through June 30, 2021, we issued a total of 5,750,000 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $31.1 million, and net proceeds of approximately $30.6 million, after commissions and fees. Subsequent to June 30, 2021 and through July 30, 2021, we issued a total of 5,560,000 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $28.6 million, and net proceeds of approximately $28.2 million, after commissions and fees.

Stock Repurchase Agreement

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

From the inception of the stock repurchase program through June 30, 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 six and three months ended June 30, 2021. The remaining authorization under the repurchase program as of June 30, 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, U.S. Federal Reserve (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 six and three months ended June 30, 2021, as compared to the Company's results of operations for the six and three months ended June 30, 2020.

Net (Loss) Income Summary

Net loss for the six months ended June 30, 2021 was $46.2 million, or $0.50 per share. Net loss for the six months ended June 30, 2020 was $42.4 million, or $0.65 per share. Net loss for the three months ended June 30, 2021 was $16.9 million, or $0.17 per share. Net income for the three months ended June 30, 2020 was $48.8 million, or $0.74 per share. The components of net (loss) income for the six and three months ended June 30, 2021 and 2020, along with the changes in those components are presented in the table below:

(in thousands)

	Six Months Ended June 30,			Three Months Ended, June 30,		
	2021	2020	Change	2021	2020	Change
Interest income	$ 56,110	$ 62,929	$ (6,819)	$ 29,254	$ 27,258	$ 1,996
Interest expense	(3,497)	(21,002)	17,505	(1,556)	(4,479)	2,923
Net interest income	52,613	41,927	10,686	27,698	22,779	4,919
(Losses) gains on RMBS and derivative contracts	(91,635)	(79,457)	(12,178)	(40,844)	28,749	(69,593)
Net portfolio (loss) income	(39,022)	(37,530)	(1,492)	(13,146)	51,528	(64,674)
Expenses	(7,212)	(4,897)	(2,315)	(3,719)	(2,756)	(963)
Net (loss) income	$ (46,234)	$ (42,427)	$ (3,807)	$ (16,865)	$ 48,772	$ (65,637)

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)

	Net Income (GAAP)	Realized and Unrealized Gains and Losses[1]	Net Earnings Excluding Realized and Unrealized Gains and Losses	Per Share: Net Income (GAAP)	Per Share: Realized and Unrealized Gains and Losses	Per Share: Net Earnings Excluding Realized and Unrealized Gains and Losses
Three Months Ended						
June 30, 2021	$ (16,865)	$ (40,844)	$ 23,979	$ (0.17)	$ (0.41)	$ 0.24
March 31, 2021	(29,369)	(50,791)	21,422	(0.34)	(0.60)	0.26
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
Six Months Ended						
June 30, 2021	$ (46,234)	$ (91,635)	$ 45,401	$ (0.50)	$ (0.99)	$ 0.49
June 30, 2020	(42,427)	(79,457)	37,030	(0.65)	(1.21)	0.56

(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 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)	(Long Positions)	Funding Hedges Attributed to Current Period (Non-GAAP)	Attributed to Future Periods (Non-GAAP)
Three Months Ended					
June 30, 2021	$ (34,915)	$ (5,963)	$ -	$ (5,104)	$ (23,848)
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)
Six Months Ended					
June 30, 2021	$ 10,557	$ 3,170	$ (8,559)	$ (9,148)	$ 25,094
June 30, 2020	(91,709)	(6,508)	1,133	(10,651)	(75,683)

Economic Interest Expense and Economic Net Interest Income

(in thousands)

	Interest Income	Interest Expense on Borrowings: GAAP Interest Expense	Gains (Losses) on Derivative Instruments Attributed to Current Period[1]	Economic Interest Expense[2]	Net Interest Income: GAAP Net Interest Income	Economic Net Interest Income[3]
Three Months Ended						
June 30, 2021	$ 29,254	$ 1,556	$ (5,104)	$ 6,660	$ 27,698	$ 22,594
March 31, 2021	26,856	1,941	(4,044)	5,985	24,915	20,871
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
Six Months Ended						
June 30, 2021	$ 56,110	$ 3,497	$ (9,148)	$ 12,645	$ 52,613	$ 43,465
June 30, 2020	62,929	21,002	(10,651)	31,653	41,927	31,276

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

Net Interest Income

During the six months ended June 30, 2021, we generated $52.6 million of net interest income, consisting of $56.1 million of interest income from RMBS assets offset by $3.5 million of interest expense on borrowings. For the comparable period ended June 30, 2020, we generated $41.9 million of net interest income, consisting of $62.9 million of interest income from RMBS assets offset by $21.0 million of interest expense on borrowings. The $6.8 million decrease in interest income was due to a 131 basis point ("bps") decrease in the yield on average RMBS, partially offset by a $1,070.5 million increase in average RMBS. The $17.5 million decrease in interest expense was due to a 120 bps decrease in the average cost of funds, partially offset by a $1,057.6 million increase in average outstanding borrowings.

On an economic basis, our interest expense on borrowings for the six months ended June 30, 2021 and 2020 was $12.6 million and $31.7 million, respectively, resulting in $43.5 million and $31.3 million of economic net interest income, respectively.

During the three months ended June 30, 2021, we generated $27.7 million of net interest income, consisting of $29.3 million of interest income from RMBS assets offset by $1.6 million of interest expense on borrowings. For the three months ended June 30, 2020, we generated $22.8 million of net interest income, consisting of $27.3 million of interest income from RMBS assets offset by $4.5 million of interest expense on borrowings. The $2.0 million increase in interest income was due to a $1,378.1 million increase in average RMBS, partially offset by a 89 bps decrease in the yield on average RMBS. The $2.9 million decrease in interest expense was due to a 46 bps decrease in the average cost of funds, partially offset by a $1,355.7 million increase in average outstanding borrowings.

On an economic basis, our interest expense on borrowings for the three months ended June 30, 2021 and 2020 was $6.7 million and $10.2 million, respectively, resulting in $22.6 million and $17.0 million of economic net interest income, respectively.

The tables below provide information on our portfolio average balances, interest income, yield on assets, average borrowings, interest expense, cost of funds, net interest income and net interest spread for the six months ended June 30, 2021 and 2020 and each quarter of 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								
June 30, 2021	$ 4,504,887	$ 29,254	2.60%	$ 4,348,192	$ 1,556	$ 6,660	0.14%	0.61%
March 31, 2021	4,032,716	26,856	2.66%	3,888,633	1,941	5,985	0.20%	0.62%
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%
Six Months Ended								
June 30, 2021	$ 4,268,801	$ 56,110	2.63%	$ 4,118,413	$ 3,497	$ 12,645	0.17%	0.61%
June 30, 2020	3,198,319	62,929	3.94%	3,060,836	21,002	31,653	1.37%	2.07%

($ in thousands)

	Net Interest Income GAAP Basis	Net Interest Income Economic Basis[2]	Net Interest Spread GAAP Basis	Net Interest Spread Economic Basis[4]
Three Months Ended				
June 30, 2021	$ 27,698	$ 22,594	2.46%	1.99%
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%
Six Months Ended				
June 30, 2021	$ 52,613	$ 43,465	2.46%	2.02%
June 30, 2020	41,927	31,276	2.57%	1.87%

(1) Portfolio yields and costs of borrowings presented in the tables above and the tables on pages 30 and 31 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 31 includes the effect of our derivative instrument hedges for only the periods presented.

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

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

Interest Income and Average Asset Yield

Our interest income for the six months ended June 30, 2021 and 2020 was $56.1 million and $62.9 million, respectively. We had average RMBS holdings of $4,268.8 million and $3,198.3 million for the six months ended June 30, 2021 and 2020, respectively. The yield on our portfolio was 2.63% and 3.94% for the six months ended June 30, 2021 and 2020, respectively. For the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, there was a $6.8 million decrease in interest income due to the 131 bps decrease in the yield on average RMBS, partially offset by the $1,070.5 million increase in average RMBS.

Our interest income for the three months ended June 30, 2021 and 2020 was $29.3 million and $27.3 million, respectively. We had average RMBS holdings of $4,504.9 million and $3,126.8 million for the three months ended June 30, 2021 and 2020, respectively. The yield on our portfolio was 2.60% and 3.49% for the three months ended June 30, 2021 and 2020, respectively. For the three months ended June 30, 2021 as compared to the three months ended June 30, 2020, there was a $2.0 million increase in the interest income due to the $1,378.1 million increase in average RMBS, partially offset by the 89 bps decrease in the yield on average RMBS.

The table below presents the average portfolio size, income and yields of our respective sub-portfolios, consisting of structured RMBS and PT RMBS, for the six months ended June 30, 2021 and 2020, and for each quarter of 2021 to date and 2020.

($ in thousands)

	Average RMBS Held			Interest Income			Realized Yield on Average RMBS		
	PT RMBS	Structured RMBS	Total	PT RMBS	Structured RMBS	Total	PT RMBS	Structured RMBS	Total
Three Months Ended									
June 30, 2021	$ 4,436,135	$ 68,752	$ 4,504,887	$ 29,286	$ (32)	$ 29,254	2.64%	(0.18)%	2.60%
March 31, 2021	3,997,965	34,751	4,032,716	26,869	(13)	26,856	2.69%	(0.15)%	2.66%
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%
Six Months Ended									
June 30, 2021	$ 4,217,050	$ 51,751	$ 4,268,801	$ 56,155	$ (45)	$ 56,110	2.66%	(0.17)%	2.63%
June 30, 2020	3,148,035	50,284	3,198,319	62,290	639	62,929	3.96%	2.54%	3.94%

Interest Expense and the Cost of Funds

We had average outstanding borrowings of $4,118.4 million and $3,060.8 million and total interest expense of $3.5 million and $21.0 million for the six months ended June 30, 2021 and 2020, respectively. Our average cost of funds was 0.17% for the six months ended June 30, 2021, compared to 1.37% for the comparable period in 2020. The $17.5 million decrease in interest expense was due to the 120 bps decrease in the average cost of funds, partially offset by the $1,057.6 million increase in average outstanding borrowings during the six months ended June 30, 2021 as compared to the six months ended June 30, 2020.

Our economic interest expense was $12.6 million and $31.7 million for the six months ended June 30, 2021 and 2020, respectively. There was a 146 bps decrease in the average economic cost of funds to 0.61% for the six months ended June 30, 2021 from 2.07% for the six months ended June 30, 2020.

We had average outstanding borrowings of $4,348.2 million and $2,992.5 million and total interest expense of $1.6 million and $4.5 million for the three months ended June 30, 2021 and 2020, respectively. Our average cost of funds was 0.14% and 0.60% for three months ended June 30, 2021 and 2020, respectively. There was a 46 bps decrease in the average cost of funds and a $1,355.7 million increase in average outstanding borrowings during the three months ended June 30, 2021, compared to the three months ended June 30, 2020.

Our economic interest expense was $6.7 million and $10.2 million for the three months ended June 30, 2021 and 2020, respectively. There was a 76 bps decrease in the average economic cost of funds to 0.61% for the three months ended June 30, 2021 from 1.37% for the three months ended June 30, 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 4 bps above the average one-month LIBOR and 4 bps below the average six-month LIBOR for the quarter ended June 30, 2021. Our average economic cost of funds was 51 bps above the average one-month LIBOR and 43 bps above the average six-month LIBOR for the quarter ended June 30, 2021. The average term to maturity of the outstanding repurchase agreements decreased to 29 days at June 30, 2021 from 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 the six months ended June 30, 2021 and 2020, and for each quarter in 2021 to date and 2020, on both a GAAP and economic basis.

($ in thousands)

	Average Balance of Borrowings	Interest Expense		Average Cost of Funds	
		GAAP Basis	Economic Basis	GAAP Basis	Economic Basis
Three Months Ended					
June 30, 2021	$ 4,348,192	$ 1,556	$ 6,660	0.14%	0.61%
March 31, 2021	3,888,633	1,941	5,985	0.20%	0.62%
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%
Six Months Ended					
June 30, 2021	$ 4,118,413	$ 3,497	$ 12,645	0.17%	0.61%
June 30, 2020	3,060,836	21,002	31,653	1.37%	2.07%

	Average LIBOR		Average GAAP Cost of Funds Relative to Average		Average Economic Cost of Funds Relative to Average	
	One-Month	Six-Month	One-Month LIBOR	Six-Month LIBOR	One-Month LIBOR	Six-Month LIBOR
Three Months Ended						
June 30, 2021	0.10%	0.18%	0.04%	(0.04)%	0.51%	0.43%
March 31, 2021	0.13%	0.23%	0.07%	(0.03)%	0.49%	0.39%
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%
Six Months Ended						
June 30, 2021	0.11%	0.20%	0.06%	(0.03)%	0.50%	0.41%
June 30, 2020	0.94%	1.06%	0.43%	0.31%	1.13%	1.01%

Gains or Losses

The table below presents our gains or losses for the six and three months ended June 30, 2021 and 2020.

(in thousands)

	Six Months Ended June 30,			Three Months Ended June 30,		
	2021	2020	Change	2021	2020	Change

Realized (losses) gains on sales of RMBS	$ (6,045)	$ (25,020)	$ 18,975	$ 1,352	$ 3,360	$ (2,008)
Unrealized (losses) gains on RMBS	(96,147)	37,272	(133,419)	(7,282)	34,240	(41,522)
Total (losses) gains on RMBS	(102,192)	12,252	(114,444)	(5,930)	37,600	(43,530)
Gains (losses) on interest rate futures	278	(13,042)	13,320	(2,210)	(486)	(1,724)
Gains (losses) on interest rate swaps	9,446	(68,202)	77,648	(17,677)	(7,579)	(10,098)
Gains (losses) on payer swaptions (short positions)	1,212	(889)	2,101	27,379	(889)	28,268
Gains (losses) on payer swaptions (long positions)	3,710	(4,201)	7,911	(36,360)	(1,612)	(34,748)
Gains (losses) on interest rate floors	1,300	-	1,300	(84)	-	(84)
Gains (losses) on TBA securities (short positions)	3,170	(6,377)	9,547	(5,963)	713	(6,676)
(Losses) gains on TBA securities (long positions)	(8,559)	1,133	(9,692)	-	1,133	(1,133)
Losses on U.S. Treasury securities (short positions)	-	(131)	131	-	(131)	131
Total (losses) gains from derivative instruments	10,557	(91,709)	102,266	(34,915)	(8,851)	(26,064)

We invest in RMBS with the intent to earn net income from the realized yield on those assets over their related funding and hedging costs, and not for the purpose of making short term gains from sales. However, we have sold, and may continue to sell, existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns in light of current or anticipated interest rates, federal government programs or general economic conditions or to manage our balance sheet as part of our asset/liability management strategy. During the six months ended June 30, 2021 and 2020, we received proceeds of $1,680.9 million and $2,023.3 million, respectively, from the sales of RMBS. Most of these sales during the six months ended June 30, 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. During the three months ended June 30, 2021 and 2020, we received proceeds of $692.4 million and $214.5 million, respectively, from the sales of RMBS.

Realized and unrealized gains and losses on RMBS are driven in part by changes in yields and interest rates, which affect the pricing of the securities in our portfolio. The unrealized gains and losses on RMBS also include the premium lost as a result of prepayments on the underlying mortgages, decreasing unrealized gains or increasing unrealized losses as speeds or premiums increase. 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)
June 30, 2021	0.87%	1.44%	2.27%	2.98%	0.13%
March 31, 2021	0.94%	1.75%	2.39%	3.08%	0.19%
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

For the six and three months ended June 30, 2021, the Company's total operating expenses were approximately $7.2 million and $3.7 million, respectively, compared to approximately $4.9 million and $2.8 million, respectively, for the six and three months ended June 30, 2020. The table below presents a breakdown of operating expenses for the six and three months ended June 30, 2021 and 2020.

(in thousands)

	Six Months Ended June 30,	Three Months Ended June 30,

	2021	2020	Change	2021	2020	Change
Management fees	$ 3,413	$ 2,645	$ 768	$ 1,792	$ 1,268	$ 524
Overhead allocation	799	695	104	395	348	47
Accrued incentive compensation	625	(275)	900	261	161	100
Directors fees and liability insurance	595	508	87	323	248	75
Audit, legal and other professional fees	620	601	19	302	346	(44)
Direct REIT operating expenses	715	446	269	294	240	54
Other administrative	445	277	168	352	145	207
Total expenses	$ 7,212	$ 4,897	$ 2,315	$ 3,719	$ 2,756	$ 963

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 Orchid MBS	Average Orchid Equity	Advisory Services Management Fee	Advisory Services Overhead Allocation	Total
Three Months Ended					
June 30, 2021	$ 4,504,887	$ 542,679	$ 1,792	$ 395	$ 2,187
March 31, 2021	4,032,716	456,687	1,621	404	2,025
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
Six Months Ended					
June 30, 2021	$ 4,268,801	$ 499,683	$ 3,413	$ 799	$ 4,212
June 30, 2020	3,198,319	368,883	2,645	695	3,340

Financial Condition:

Mortgage-Backed Securities

As of June 30, 2021, our RMBS portfolio consisted of $4,671.2 million of Agency RMBS at fair value and had a weighted average coupon on assets of 3.06%. During the six months ended June 30, 2021, we received principal repayments of $259.4 million compared to $260.8 million for the six months ended June 30, 2020. The average three month prepayment speeds for the quarters ended June 30, 2021 and 2020 were 12.9% and 16.3%, respectively.

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

Three Months Ended	PT RMBS Portfolio (%)	Structured RMBS Portfolio (%)	Total Portfolio (%)
June 30, 2021	10.9	29.9	12.9
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 June 30, 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
June 30, 2021					
Fixed Rate RMBS	$ 4,574,539	97.9%	2.97%	335	1-Jul-51
Total Mortgage-backed Pass-through	4,574,539	97.9%	2.97%	335	1-Jul-51
Interest-Only Securities	92,709	2.0%	3.63%	290	25-May-51
Inverse Interest-Only Securities	3,991	0.1%	3.79%	307	15-Jun-42
Total Structured RMBS	96,700	2.1%	3.64%	291	25-May-51
Total Mortgage Assets	$ 4,671,239	100.0%	3.06%	329	1-Jul-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)

	June 30, 2021		December 31, 2020	
Agency	Fair Value	Percentage of Entire Portfolio	Fair Value	Percentage of Entire Portfolio
Fannie Mae	$ 3,773,957	80.8%	$ 2,733,960	73.4%
Freddie Mac	897,282	19.2%	992,935	26.6%
Total Portfolio	$ 4,671,239	100.0%	$ 3,726,895	100.0%

	June 30, 2021	December 31, 2020
Weighted Average Pass-through Purchase Price	$ 107.37	$ 107.43
Weighted Average Structured Purchase Price	$ 17.88	$ 20.06
Weighted Average Pass-through Current Price	$ 106.65	$ 108.94

Weighted Average Structured Current Price	$ 14.48	$ 10.87
Effective Duration[(1)]	3.830	2.360

(1) Effective duration is the approximate percentage change in price for a 100 bps change in rates. An effective duration of 3.830 indicates that an interest rate increase of 1.0% would be expected to cause a 3.830% decrease in the value of the RMBS in the Company's investment portfolio at June 30, 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 six months ended June 30, 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	$ 2,910,318	$ 107.05	1.54%	$ 1,985,756	$ 106.59	1.99%
Structured RMBS	76,546	15.42	3.98%	-	-	-

Borrowings

As of June 30, 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 23 of these counterparties. None of these lenders are affiliated with the Company. These borrowings are secured by the Company's RMBS and cash, and bear interest at prevailing market rates. We believe our established repurchase agreement borrowing facilities provide borrowing capacity in excess of our needs.

As of June 30, 2021, we had obligations outstanding under the repurchase agreements of approximately $4,514.7 million with a net weighted average borrowing cost of 0.13%. The remaining maturity of our outstanding repurchase agreement obligations ranged from 1 to 100 days, with a weighted average remaining maturity of 29 days. Securing the repurchase agreement obligations as of June 30, 2021 are RMBS with an estimated fair value, including accrued interest, of approximately $4,678.1 million and a weighted average maturity of 339 months, and cash pledged to counterparties of approximately $79.1 million. Through July 30, 2021, we have been able to maintain our repurchase facilities with comparable terms to those that existed at June 30, 2021 with maturities through August 14, 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)

				Difference Between Ending Borrowings and Average Borrowings	
Three Months Ended	Ending Balance of Borrowings	Maximum Balance of Borrowings	Average Balance of Borrowings	Amount	Percent
June 30, 2021	$ 4,514,704	$ 4,517,953	$ 4,348,192	$ 166,512	3.83%
March 31, 2021	4,181,680	4,204,935	3,888,633	293,047	7.54%
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 six months ended June 30, 2021, haircuts on our pledged collateral remained stable and as of June 30, 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	$ 4,514,704	$ -	$ -	$ -	$ 4,514,704
Interest expense on repurchase agreements[(1)]	1,516	-	-	-	1,516
Totals	$ 4,516,220	$ -	$ -	$ -	$ 4,516,220

(1) Interest expense on repurchase agreements is based on current interest rates as of June 30, 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 June 30, 2021, we had cash and cash equivalents of $272.8 million. We generated cash flows of $312.7 million from principal and interest payments on our RMBS and had average repurchase agreements outstanding of $4,118.4 million during the six months ended June 30, 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, after 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 could offer and sell, from time to time, up to an aggregate amount of $150,000,000 of shares of our common stock in transactions that were deemed to be “at the market” offerings and privately negotiated transactions. We issued a total of 27,493,650 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $150.0 million, and net proceeds of approximately $147.4 million, after commissions and fees, prior to its termination in June 2021.

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

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

On June 22, 2021, we entered into an equity distribution agreement (the “June 2021 Equity Distribution Agreement”) with four sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of our common stock in transactions that are deemed to be “at the market” offerings and privately negotiated transactions. Through June 30, 2021, we issued a total of 5,750,000 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $31.1 million, and net proceeds of approximately $30.6 million, after commissions and fees. Subsequent to June 30, 2021 and through July 30, 2021, we issued a total of 5,560,000 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $28.6 million, and net proceeds of approximately $28.2 million, after commissions and fees.

Outlook

Economic Summary

The economy continued its strong recovery from the COVID-19 pandemic during the second quarter of 2021. The surge in COVID-19 cases that occurred during the first quarter of 2021 abated quickly as inoculations of the new vaccines were widely distributed throughout the population – especially to those most susceptible to the virus. New COVID-19 cases, hospitalizations and deaths from the virus decreased dramatically, allowing the economy to reopen and substantial pent-up demand on the part of consumers to be unleashed. Additional fiscal policy steps taken by the Biden administration, described below, added to the surge in economic activity.

The economic data released throughout the second quarter provided evidence of the recovery. Retail sales, especially car sales, air travel and hotel demand, surged. Home sales grew at a pace that exceeded the early 2000s. Home price increases exceeded levels seen in the early 2000s as well, eventually leading to a slow down in home sales and price appreciation in the early days of the third quarter as elevated home prices became an impediment to new sales. As the demand for many goods and services surged, the lingering effects of the pandemic acted to retard supply, leading to price increases. For example, the supply of computer chips in the case of autos and consumer electronics could not keep up with demand. Shortages of commodities like lumber in the case of housing, and labor generally, constrained the economy’s ability to meet demand. Labor remained constrained as workers either were content to collect supplemental unemployment insurance available initially under COVID-19 related legislation, where fearful of excess exposure to COVID-19 (especially in the case of leisure and hospitality workers) or unable due to the lack of access to childcare, and thus unable to return to work. Gross domestic product, or GDP, is estimated to have expanded at an 8.0% annualized rate during the second quarter of 2021. Importantly, the supply/demand imbalances mentioned above, coupled with an expansion in the monetary base driven by both fiscal and monetary policy (the

Fed's monthly asset purchases), has driven inflation higher. The consumer price index, or CPI, has accelerated to over 5% on a year-over-year basis for the first time since 2008. The lone disappointment over the period has been job growth, as mentioned above. The market anticipates this may change somewhat when the supplemental unemployment benefits expire in early September, but the rapid emergence of the delta variant of COVID-19 may keep job growth recovery below market expectations beyond September.

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 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. The response of U.S. Treasury rates appeared to follow this pattern precisely during the first quarter of 2021 but have since reversed since early in the second quarter 2021.

Interest Rates

As economic activity and inflation accelerated during the second quarter of 2021, market participants anticipated interest rates would continue to rise as they had done during the first quarter of the year. This was most evident in the open interest in the various U.S. Treasury futures – namely the level of contracts shorted. However, interest rates did not continue to rise in the second quarter of 2021. In fact, over the course of the quarter, longer term interest rates declined slowly – by 27.2 bps in the case of the 10-year U.S. Treasury note and 32.5 bps in the case of the 30-year U.S. Treasury bond. Since quarter end, rates have accelerated their decline, especially so as the delta variant of COVID-19 has appeared to spread at an accelerating rate across both the U.S. and the globe. The driver of the counter-intuitive movement in rates was likely the result of technical factors, as market positioning was so skewed to the short side and there simply were few if any additional sellers. The disappointing job growth figures have also been pointed to as evidence the market may have been overly optimistic about the magnitude of the economic recovery. More recently, the rapid spread of the delta variant of COVID-19 is causing market participants to lower their near-term growth estimates – both for the U.S. and globally.

The Fed has played a role in the evolution of interest rates over the course of the quarter as well. The most significant development has been the Fed's insistence, at least from the FOMC leadership, that the inflationary pressures evident in the economy will be transitory. The Fed argues that COVID-19 related supply constraints are driving most price pressures, and that activity most related to the opening of the economy – travel, dining out, housing, etc. – is causing price pressures related to excessive demand, demand that should subside as the economy returns to normal levels of activity. Substantial fiscal stimulus also played a role in the Fed's view in that direct payments to consumers related to the various relief measures passed by Congress were one time in nature and their effect will fade. Market pricing, or the level of interest rates, especially longer-term rates, seems to indicate the market agrees with this point of view. However, at the conclusion of the FOMC meeting in June, the market was surprised to learn that while the leadership of the Fed maintained this view, not all members of the FOMC did. There were members of the committee that believed inflation may not be transitory, and that as a result the Fed would have to raise interest rates sooner than previously thought and begin to taper their asset purchases sooner as well. The market interpreted these developments as a hawkish shift on the part of the Fed, although the leadership of the Fed – especially Chairman Powell - has pushed back against this interpretation and insists the Fed's stance has not changed.

The Agency RMBS Market

Performance for the Agency RMBS market for the second quarter trailed most other asset classes, especially so in June. The total return for the Agency RMBS sub-index was 0.33% for the quarter. As mentioned above, at the conclusion of the June FOMC meeting it was evident that not all committee members shared the view of the Fed leadership that the removal of accommodation was still far off – or that the recovery was far from complete. There were members who thought the Fed would have to taper their asset purchases and eventually raise short-term interest rates much sooner. For the Agency RMBS market, this meant Fed purchases of $40 billion per month might be ending sooner than most market participants expected. The extremely strong housing market added credence to the notion that the Fed did not need to continue to provide support to the market any longer as well. Given the length of time the Fed has been supporting the Agency RMBS market, coupled with banks that are flush with deposits that need to be invested, price levels in the Agency RMBS market were quite rich prior to this development. While all sectors of the financial markets appear to be priced at the high end of long-term price ranges, the loss of such a large buyer of Agency RMBS likely would have a negative effect on their valuations. The market has reacted to the potential of lower Fed purchases of Agency RMBS, leading to the relative under-performance of the Agency RMBS market during the second quarter of 2021.

The second driver of Agency RMBS performance, both for the second quarter of 2021 and beyond, is, as always, the level of prepayments. As the market has rallied – especially long-term rates – rates available to borrowers are now back to levels seen last summer, and burn-out has yet to develop in higher coupon, more seasoned mortgages. This has been supportive of specified pool premiums, a core holding of the Company.

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. At the June 2021 meeting, the Fed agreed to begin to discuss adjusting the path and composition of asset purchases, but reiterated the intention to provide notice well in advance of an announcement to reduce the pace of such purchases. 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 on March 27, 2020. 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 provided 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, expanded unemployment benefits, and a moratorium on foreclosures. 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, an additional $900 billion coronavirus aid package was signed into law 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 has been extended to July 31, 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 has been extended to July 31, 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, which has been extended to July 31, 2021.

On March 11, 2021, the $1.9 trillion American Rescue Plan Act of 2021 was signed into law. This stimulus program furthered 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. On June 23, 2021, President Biden removed the director of the FHFA and appointed an acting director. With the leadership change at FHFA, some observers anticipate that the Biden administration will be less likely to focus on ending the GSEs’ conservatorship and that the January 14, 2021 letter agreements between the U.S. Treasury and the FHFA may be renegotiated.

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 interest rate 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 loan buyout policy for Single-Family Uniform Mortgage-Backed Securities (UMBS) and Mortgage-Backed Securities (MBS) from four consecutively missed monthly payments to twenty-four consecutively missed monthly payments (i.e., 24 months past due). This new timeframe 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 any modification trial period, the loan will remain in the MBS until the trial period ends;
- a loan subject to a short sale or deed-in-lieu of foreclosure; or
- a loan referred to foreclosure.

Because of these exceptions, the GSEs currently believe based on prevailing assumptions and market conditions that 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 in turn would require us to significantly increase our monitoring of the credit risks of our investments in addition to interest rate and prepayment risks.

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

If prepayment levels increase, the value of our Agency RMBS affected by such prepayments may decline. This is because a principal prepayment accelerates the effective term of an Agency RMBS, which would shorten the period during which an investor would receive above-market returns (assuming the yield on the prepaid asset is higher than market yields). Also, prepayment proceeds may not be able to be reinvested in similar-yielding assets. Agency RMBS backed by mortgages with high interest rates are more susceptible to prepayment risk because holders of those mortgages are most likely to refinance to a lower rate. IOs and IIOs, however, may be the types of Agency RMBS most sensitive to increased prepayment rates. Because the holder of an IO or IIO receives no principal payments, the values of IOs and IIOs are entirely dependent on the existence of a principal balance on the underlying mortgages. If the principal balance is eliminated due to prepayment, IOs 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. At the June 2021 meeting, the Fed agreed to begin to discuss plans for adjusting the path and composition of asset purchases, but reiterated the intention to provide notice well in advance of an announcement to reduce the pace of such purchases. 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

In contrast to the four quarters that preceded the second quarter of 2021, COVID-19 did not suppress the performance of the markets and economy in the second quarter. 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 recovered rapidly as an effective vaccine 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 benefiting from extremely loose financial conditions, abundant liquidity, high risk tolerance and an insatiable demand for returns. The constraint that both limits the level of activity and is a driver of price pressures is the lingering effect of the pandemic on labor force participation – or lack thereof. A significant part of the price pressure observed during the second quarter was driven by supply shortages, which are in turn driven by under-staffed producers of various goods and services. This constraint should be slowly removed over the balance of 2021 barring a resurgence of the pandemic.

The economic data released during the second quarter tells the story quite well. GDP is estimated to have expanded at an 8.0% annualized rate. The housing market is stronger than the days before the financial crisis in the late 2000s – both in terms of the number of homes sold and average prices – which are up over 23% year over year in June 2021 versus June 2020 in the case of existing home sales. Price pressures are evident, due to the combination of constrained supply chains and robust demand – driven by a strong combination of pent-up demand and government stimulus. The CPI increased by over 5% year over year in June as well. The Fed has insisted these price pressures are temporary, and the market appears to agree based on the level of long-term U.S. Treasury rates. However, not all members of the FOMC or market participants agree. Since the disagreement stems from the length of time the price pressures are present in the market, it will be resolved by the mere passage of time.

Returns for the Agency RMBS market trailed most other sectors of the financial markets, both fixed income as well as equities or high-yield. The driver was the prospect the Fed would begin to taper their asset purchases as the economy fully recovers. This was especially the case in June, after the Fed concluded their FOMC meeting and revealed the divergence in views of committee members regarding the timing of this step. While Fed leadership maintains this step is still well into the future, the robustness of the housing market coupled with the growing divergence of views within the Fed was enough for the markets to begin to price in a reduction in Fed asset purchases. A second factor hurting the sector was the rally in long-term interest rates that confounded many market participants. Rates available to borrowers are back to levels prevalent during the summer of 2020 and refinancing activity has re-accelerated, delaying once more burnout for higher coupon, more seasoned loans and driving premiums for specified pools slightly higher.

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 June 30, 2021, we had no material commitments for capital expenditures.

Off-Balance Sheet Arrangements

At June 30, 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 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)		0.455		45,460
Totals	$	12.110	$	387,423

(1) On July 14, 2021, the Company declared a dividend of $0.065 per share to be paid on August 27, 2021. The effect of this dividend is included in the table above, but is not reflected in the Company’s financial statements as of June 30, 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 June 30, 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 June 30, 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 June 30, 2021		
-200 Basis Points	(0.71)%	(6.01)%
-100 Basis Points	0.27%	2.26%
-50 Basis Points	0.37%	3.12%
+50 Basis Points	(0.96)%	(8.09)%
+100 Basis Points	(2.37)%	(19.96)%
+200 Basis Points	(5.88)%	(49.61)%
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 yields on the repaid investment, thus affecting our net interest income by altering the average yield on our assets.

Spread Risk

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

Liquidity Risk

The primary liquidity risk for us arises from financing long-term assets with shorter-term borrowings through repurchase agreements. Our assets that are pledged to secure repurchase agreements are Agency RMBS and cash. As of June 30, 2021, we had unrestricted cash and cash equivalents of $272.8 million and unpledged securities of approximately $5.7 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 our Manager's assumptions regarding the rate at which the borrowers will prepay the underlying mortgage loans. In general, we use futures contracts and interest rate swaps and swaptions to help manage our funding cost on our investments in the event that interest rates rise. These hedging instruments allow us to reduce our funding exposure on the notional amount of the instrument for a specified period of time.

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

Counterparty Credit Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal 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 June 30, 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 June 30, 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)
April 1, 2021 - April 30, 2021	-	$ -	-	837,311
May 1, 2021 - May 31, 2021	-	-	-	837,311
June 1, 2021 - June 30, 2021	311	5.23	-	837,311
Totals / Weighted Average	311	$ 5.23	-	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 June 30, 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	Orchid Island Capital, Inc. 2021 Equity Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 15, 2021) †
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:	July 30, 2021	By:	/s/ Robert E. Cauley Robert E. Cauley Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)
Date:	July 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 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: July 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: July 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 June 30, 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.

July 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 June 30, 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.

July 30, 2021

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