

SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2015**

**OR**

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

**For the transition period from                      to**

**Commission File No. 001-35845**

**FIVE OAKS INVESTMENT CORP.**

(Exact name of registrant as specified in its charter)

<b>Maryland</b> (State or other jurisdiction of incorporation or organization)	<b>45-4966519</b> (I.R.S. Employer Identification Number)
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**540 Madison Avenue, 19<sup>th</sup> Floor, New York, New York 10022**

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(Address of principal executive office) (Zip Code)

**(212) 257-5073**

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<b>Class</b>	<b>Outstanding at November 9, 2015</b>
Common stock, \$0.01 par value	14,724,750

**FIVE OAKS INVESTMENT CORP.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Financial Statements

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

September 30, 2015

(unaudited)

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**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

## Condensed Consolidated Balance Sheets

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Available-for-sale securities, at fair value (includes pledged securities of \$462,558,886 and \$366,103,204 for September 30, 2015 and December 31, 2014, respectively)	\$ 462,558,886	\$ 368,315,738
Mortgage loans held-for-sale, at fair value	61,999,865	54,678,382
Multi-family loans held in securitization trusts, at fair value	1,557,938,059	1,750,294,430
Residential loans held in securitization trusts, at fair value	443,717,026	631,446,984
Mortgage servicing rights, at fair value	1,915,317	-
Linked transactions, net, at fair value	-	60,818,111
Cash and cash equivalents	27,482,330	32,274,285
Restricted cash	11,544,758	11,400,645
Deferred offering costs	1,022,427	945,661
Deferred securitization costs	189,244	-
Accrued interest receivable	8,606,987	10,962,663
Dividends receivable	26,022	-
Investment related receivable	837,045	979,509
Derivative assets, at fair value	-	21,550
FHLB stock	2,403,000	-
Other assets	361,661	71,599
<b>Total assets</b>	<b>\$ 2,580,602,627</b>	<b>\$ 2,922,209,557</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Repurchase agreements:		
Available-for-sale securities	\$ 413,342,000	\$ 544,614,000
Mortgage loans held-for-sale	52,998,963	50,263,852
FHLB advances	51,400,000	-
Multi-family securitized debt obligations	1,472,569,737	1,670,573,456
Residential securitized debt obligations	392,065,402	432,035,976
Derivative liabilities, at fair value	1,495,225	2,289,058
Accrued interest payable	6,850,611	8,238,924
Dividends payable	29,349	39,132
Fees and expenses payable to Manager	920,000	1,062,000
Other accounts payable and accrued expenses	628,474	295,029
<b>Total liabilities</b>	<b>2,392,299,761</b>	<b>2,709,411,427</b>
<b>STOCKHOLDERS' EQUITY:</b>		
	37,156,972	37,156,972

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Preferred Stock: par value \$0.01 per share; 50,000,000 shares authorized, 8.75% Series A cumulative redeemable, \$25 liquidation preference, 1,610,000 and 1,610,000 issued and outstanding at September 30, 2015 and December 31, 2014, respectively

Common Stock: par value \$0.01 per share; 450,000,000 shares authorized, 14,724,750 and 14,718,750 shares issued and outstanding, at September 30, 2015 and December 31, 2014, respectively

Additional paid-in capital	146,953	146,953
Accumulated other comprehensive income (loss)	189,038,520	189,332,874
Cumulative distributions to stockholders	7,956,008	7,208,350
Accumulated earnings	(50,495,523 )	(32,406,541 )
	4,499,936	11,359,522
Total stockholders' equity	188,302,866	212,798,130
Total liabilities and stockholders' equity	\$ 2,580,602,627	\$ 2,922,209,557

(1) The consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIE's) as the Company is the primary beneficiary of these VIEs. As of September 30, 2015 and December 31, 2014, assets of consolidated VIEs totaled \$2,008,616,893 and \$2,389,784,101, respectively, and the liabilities of consolidated VIEs totaled \$1,871,026,569 and \$2,180,936,221, respectively

See Notes 6 and 7 for further discussion



**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

## Condensed Consolidated Statements of Operations

	Three Months Ended September 30, 2015 (unaudited)	Three Months Ended September 30, 2014 (unaudited)	Nine Months Ended September 30, 2015 (unaudited)	Nine Months Ended September 30, 2014 (unaudited)
Revenues:				
Interest income:				
Available-for-sale securities	\$ 5,460,965	\$ 4,513,999	\$ 19,020,504	\$ 12,904,238
Mortgage loans held-for-sale	618,106	1,310,068	1,965,671	1,317,585
Multi-family loans held in securitization trusts	16,794,338	2,433,318	51,679,542	2,433,318
Residential loans held in securitization trusts	4,641,887	-	15,573,046	-
Cash and cash equivalents	4,809	9,802	13,386	18,395
Interest expense:				
Repurchase agreements - available-for-sale securities	(1,490,698 )	(635,062 )	(4,992,998 )	(1,797,322 )
Repurchase agreements - mortgage loans held-for-sale	(354,106 )	(721,239 )	(1,183,093 )	(727,005 )
Multi-family securitized debt obligations	(15,372,832 )	(2,239,797 )	(47,286,613 )	(2,239,797 )
Residential securitized debt obligations	(3,137,247 )	-	(9,894,956 )	-
Net interest income	7,165,222	4,671,089	24,894,489	11,909,412
Other-than-temporary impairments				
Increase in credit reserves	(350,924 )	-	(1,761,208 )	-
Additional other-than-temporary credit impairment losses	-	-	(2,890,939 )	-
Total impairment losses recognized in earnings	(350,924 )	-	(4,652,147 )	-
Other income:				
Realized gain (loss) on sale of investments, net	1,464,308	1,024,168	1,834,151	(2,433,071 )
Unrealized gain (loss) and net interest income from Linked Transactions	-	754,189	-	15,458,922
Realized gain (loss) on derivative contracts, net	(8,262,423 )	(9,079,091 )	(12,310,301 )	(10,771,684 )
Unrealized gain (loss) on derivative contracts, net	1,631,907	10,009,742	782,901	(1,091,127 )
Realized gain (loss) on mortgage loans held-for-sale	(13,666 )	(73,132 )	1,017,625	(73,132 )

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Unrealized gain (loss) on mortgage loans held-for-sale	539,456		474,095		496,297		567,337	
Unrealized gain (loss) on mortgage servicing rights	(488,247	)	-		(756,558	)	-	
Unrealized gain (loss) on multi-family loans held in securitization trusts	1,804,190		285,328		5,644,774		285,328	
Unrealized gain (loss) on residential loans held in securitization trusts	(1,323,697	)	-		(7,655,902	)	-	
Other income	33,374		-		59,985		-	
Total other income (loss)	(4,614,798	)	3,395,299		(10,887,028	)	1,942,573	
Expenses:								
Management fee	703,167		790,188		2,119,571		1,880,566	
General and administrative expenses	1,419,268		728,488		4,820,505		1,361,290	
Operating expenses reimbursable to Manager	1,338,272		843,943		3,444,914		2,383,413	
Other operating expenses	(20,377	)	439,198		1,185,164		944,328	
Compensation expense	64,207		51,408		187,202		185,890	
Total expenses	3,504,537		2,853,225		11,757,356		6,755,487	
Net income (loss) before provision for income taxes	(1,305,037	)	5,213,163		(2,402,042	)	7,096,498	
(Provision for) benefit from income taxes	-		(179,136	)	-		(179,136	)
Net income (loss)	(1,305,037	)	5,034,027		(2,402,042	)	6,917,362	
Dividends to preferred stockholders	(880,509	)	(880,509	)	(2,631,744	)	(1,997,004	)
Net income (loss) attributable to common stockholders	\$ (2,185,546	)	\$ 4,153,518		\$ (5,033,786	)	\$ 4,920,358	
Earnings (loss) per share:								
Net income (loss) attributable to common stockholders (basic and diluted)	\$ (2,185,546	)	\$ 4,153,518		\$ (5,033,786	)	\$ 4,920,358	
Weighted average number of shares of common stock outstanding	14,724,750		14,640,065		14,721,635		11,564,737	
Basic and diluted net income (loss) per share	\$ (0.15	)	\$ 0.28		\$ (0.34	)	\$ 0.43	
Dividends declared per share of common stock	\$ 0.30		\$ 0.38		\$ 1.05		\$ 1.10	

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

## Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended September 30, 2015 (unaudited)	Three Months Ended September 30, 2014 (unaudited)	Nine Months Ended September 30, 2015 (unaudited)	Nine Months Ended September 30, 2014 (unaudited)
Net income (loss)	\$ (1,305,037 )	\$ 5,034,027	\$ (2,402,042 )	\$ 6,917,362
Other comprehensive income (loss):				
Increase (decrease) in net unrealized gain on available-for-sale securities, net	(2,221,625 )	(7,074,861 )	(8,932,388 )	10,956,876
Reclassification adjustment for net gain (loss) included in net income	2,045,480	5,563,982	3,461,294	5,563,982
Reclassification adjustment for other-than-temporary impairments included in net income	350,924	-	4,652,147	-
Reclassification cumulative adjustment for Linked Transactions	-	-	4,457,544	-
Total other comprehensive income (loss)	174,779	(1,510,879 )	3,638,597	16,520,858
Less: Dividends to preferred stockholders	(880,509 )	(880,509 )	(2,631,744 )	(1,997,004 )
Comprehensive income (loss) attributable to common stockholders	\$ (2,010,767 )	\$ 2,642,639	\$ (1,395,189 )	\$ 21,441,216

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

## Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	Preferred Stock		Common Stock		Additional	Accumulated	Cumulative	Accu
	Shares	Par Value	Shares	Par Value	Paid in Capital	Other Comprehensive Income (Loss)	Distributions to Stockholders	Earn
Balance at January 1, 2015	1,610,000	\$37,156,972	14,718,750	\$146,953	\$189,332,874	\$7,208,350	\$(32,406,541)	\$11,
Issuance of common stock, net	-	-	6,000	-	-	-	-	-
Cost of issuing common stock	-	-	-	-	(344,889 )	-	-	-
Issuance of preferred stock, net	-	-	-	-	-	-	-	-
Redemption of preferred stock, net	-	-	-	-	-	-	-	-
Restricted stock compensation expense	-	-	-	-	50,535	-	-	-
Net income	-	-	-	-	-	-	-	(2,4
Other comprehensive income (loss)	-	-	-	-	-	(5,471,094)	-	-
Reclassification cumulative adjustments for Linked Transactions						4,457,544		(4,4
Reclassification adjustment for other-than-temporary impairments included in net income						1,761,208		
Common dividends declared	-	-	-	-	-	-	(15,457,238)	-
Preferred dividends declared	-	-	-	-	-	-	(2,631,744 )	-
Balance at September 30, 2015	1,610,000	\$37,156,972	14,724,750	\$146,953	\$189,038,520	\$7,956,008	\$(50,495,523)	\$4,4

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

## Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2015 (unaudited)	Nine Months Ended September 30, 2014 (unaudited)
Cash flows from operating activities:		
Net income (loss)	\$ (2,402,042	) \$ 6,917,362
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Other-than-temporary impairment charges	4,652,147	-
Amortization/accretion of available-for-sale securities premiums and discounts, net	(11,111,926	) (3,568,134 )
Realized (gain) loss on sale of investments, net	(1,834,151	) 4,496,755
Unrealized (gain) loss on Linked Transactions, net	-	(6,138,628 )
Realized (gain) loss on derivative contracts	12,310,301	10,771,684
Unrealized (gain) loss on derivative contracts	(782,901	) 1,091,127
Realized (gain) loss on mortgage loans held-for-sale	(1,017,625	) 73,132
Unrealized (gain) on mortgage loans held-for-sale	(496,297	) (567,337 )
Unrealized (gain) loss on mortgage servicing rights	756,558	-
Unrealized (gain) loss on multi-family loans held in securitization trusts	(5,644,774	) (285,328 )
Unrealized (gain) loss on residential loans held in securitization trusts	7,655,902	-
Restricted stock compensation expense	50,535	(19,288 )
Net change in:		
Accrued interest receivable	1,438,767	(3,960,248 )
Dividends receivable	(26,022	) -
Other assets	(290,062	) (86,934 )
Accrued interest payable	(608,536	) 2,660,541
Fees and expenses payable to Manager	(142,000	) 525,000
Other accounts payable and accrued expenses	333,445	(113,579 )
Deferred tax liability	-	179,136
Net cash provided by operating activities	2,841,319	11,975,261
Cash flows from investing activities:		
Purchase of available-for-sale securities	(109,386,478	) (270,132,411 )
Purchase of mortgage loans held-for-sale	(297,706,381	) (228,849,013 )
Purchase of mortgage service rights	(2,671,876	) -
Purchase of FHLB stock	(2,403,000	) -
Proceeds from mortgage loans held-for-sale	291,898,820	2,345,768
Proceeds from sales of available-for-sale securities	245,214,358	134,252,756
Net proceeds from (payments for) derivative contracts	(12,299,683	) (10,218,903 )
Proceeds from derivative contracts sold short	-	24,902,344
Payments to cover derivative contracts sold short	-	(25,203,125 )
Principal payments from available-for-sale securities	53,998,105	33,966,162

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Deferred securitization costs	(189,244	)	-	
Investment related receivable	71,006,526		(474,061	)
Restricted cash	(144,112	)	-	
Payable for securities purchased	-		(23,760,122	)
Net cash (used in) provided by investing activities	237,317,035		(363,170,605	)
Cash flows from financing activities:				
Net proceeds from issuance of common stock	(344,889	)	79,341,557	
Net proceeds from issuance of preferred stock	-		19,096,074	
Change in deferred offering costs	(76,766	)	(666,329	)
Dividends paid on common stock	(15,457,238	)	(12,710,344	)
Dividends paid on preferred stock	(2,641,527	)	(2,010,156	)
Proceeds from repurchase agreements - available-for-sale securities	4,432,684,999		3,301,467,286	
Proceeds from repurchase agreements - mortgage loans held-for-sale	57,432,865		205,913,210	
Proceeds from FHLBI advances	104,800,000		-	
Payments for FHLBI advances	(53,400,000	)	-	
Principal repayments of repurchase agreements - available-for-sale securities	(4,713,249,999	)	(3,214,177,286	)
Principal repayments of repurchase agreements - mortgage loans held-for-sale	(54,697,754	)	(751,584	)
Net cash received (paid) on securities underlying Linked Transactions	-		(161,329,489	)
Net cash received from repurchase agreements underlying Linked Transactions	-		125,016,000	
Net cash (used in) provided by financing activities	(244,950,309	)	339,188,939	
Net increase (decrease) in cash and cash equivalents	(4,791,955	)	(12,006,405	)
Cash and cash equivalents, beginning of period	32,274,285		33,062,931	
Cash and cash equivalents, end of period	\$ 27,482,330		\$ 21,056,526	

Supplemental disclosure of cash flow information

Cash paid for interest	\$6,730,818	\$2,544,834
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Non-cash investing and financing activities information

Restricted stock compensation expense	\$50,585	\$(19,288 )
Dividends declared but not paid at end of period	\$29,349	\$29,349
Net change in unrealized gain (loss) on available-for-sale securities	\$3,638,597	\$16,520,858
Consolidation of multi-family loans held in securitization trusts	\$1,563,385,916	\$-
Consolidation of residential loans held in securitization trusts	\$445,230,977	\$-
Consolidation of multi-family securitized debt obligations	\$1,477,807,591	\$-
Consolidation of residential securitized debt obligations	\$393,218,978	\$-
MBS securities recorded upon adoption of revised accounting standard for repurchase agreement financing	\$210,238,653	\$-
Repurchase agreements recorded upon adoption of revised accounting standard for repurchase agreement financing	\$149,293,000	\$-

## **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

### **NOTE 1 – ORGANIZATION AND BUSINESS OPERATIONS**

Five Oaks Investment Corp. (the “Company”) is a Maryland corporation focused on investing primarily in, financing and managing residential mortgage-backed securities (“RMBS”), multi-family mortgage backed securities (“Multi-Family MBS”, and together with RMBS, “MBS”), residential mortgage loans, mortgage servicing rights and other mortgage-related investments. The Company is externally managed by Oak Circle Capital Partners LLC (the “Manager”), an asset management firm incorporated in Delaware. The Company’s common stock is listed on the NYSE under the symbol “OAKS.”

The Company was incorporated on March 28, 2012 and commenced operations on May 16, 2012. The Company began trading as a publicly traded company on March 22, 2013.

The Company has elected to be taxed as a real estate investment trust (“REIT”) and to comply with Sections 856 through 859 of the Internal Revenue Code of 1986, as amended, the (“Code”). Accordingly, the Company generally will not be subject to U.S. federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and share ownership tests are met. The Company invests in Agency RMBS, which are RMBS for which the principal and interest payments are guaranteed by a U.S. Government agency such as the Government National Mortgage Association or a U.S. Government-sponsored entity such as the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. The Company also invests in Non-Agency RMBS, which are RMBS that are not guaranteed by a U.S. Government agency or a U.S. Government-sponsored entity. Additionally, the Company invests in Multi-Family MBS, which are MBS for which the principal and interest may be sponsored by a U.S. Government agency such as the Government National Mortgage Association or a U.S. Government-sponsored entity such as the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, or may not be sponsored by a U.S. Government agency or a U.S. Government-sponsored entity. The Company also invests in residential mortgage loans, mortgage servicing rights, and may also invest in other mortgage-related investments.

On June 10, 2013, the Company established Five Oaks Acquisition Corp. (“FOAC”) as a wholly owned taxable REIT subsidiary (“TRS”), for the acquisition and disposition of residential mortgage loans. The Company consolidates this subsidiary under generally accepted accounting principles in the United States of America (“U.S. GAAP”).

On April 30, 2014, the Company established Five Oaks Insurance LLC (“FOI”) as a wholly owned subsidiary. On February 24, 2015, FOI became a member of the Federal Home Loan Bank of Indianapolis (“FHLBI”). The Company consolidates this subsidiary under U.S. GAAP.



In September 2014, and October 2014, respectively, the Company acquired first loss tranches issued or backed by two Freddie Mac-sponsored Multi-Family MBS K series securitizations (the “FREMF 2011-K13 Trust” and the “FREMF 2012-KF01 Trust”). In October 2014, and December 2014, respectively, the Company also acquired first loss and subordinated tranches issued by two residential mortgage-backed securitizations (the “JPMMT 2014-OAK4 Trust” and the “CSMC 2014-OAK1 Trust”). The Company determined that each of the Trusts was a variable interest entity (“VIE”) and that in each case the Company was the primary beneficiary, and accordingly consolidated the assets and liabilities of the four Trusts into the Company’s financial statements in accordance with U.S. GAAP.

On March 23, 2015, the Company established Oaks Funding LLC (“OF”) as a wholly owned subsidiary of FOAC, to fulfill certain functions as depositor in respect of residential mortgage loan securitization transactions. The Company consolidates this subsidiary under U.S. GAAP.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The condensed consolidated balance sheet as of December 31, 2014 has been derived from audited financial statements. The condensed consolidated balance sheet as of September 30, 2015, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive income (loss), the condensed consolidated statement of stockholders' equity and the condensed consolidated statements of cash flows, for the three and nine months ended September 30, 2015 and for the three and nine months ended September 30, 2014, are unaudited.

The unaudited condensed consolidated financial statements and related notes have been prepared in accordance with U.S. GAAP for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally included in the financial statements prepared under U.S. GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the Company's financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the Securities and Exchange Commission ("SEC") on March 16, 2015 .

***Reclassifications***

Certain prior year amounts have been reclassified to conform to current year presentation.

***Principles of Consolidation***

The accompanying condensed consolidated financial statements of the Company include the accounts of the Company and all its subsidiaries which are majority-owned, controlled by the Company or a variable interest entity where the Company is the primary beneficiary. All significant intercompany transactions have been eliminated in consolidation.

### ***VIEs***

An entity is referred to as a variable interest entity (“VIE”) if it lacks one or more of the following characteristics: (1) sufficient equity at risk to finance its activities without additional subordinated financial support provided by any parties, including the equity holders; (2) as a group the holders of the equity investment at risk have (a) the power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity's economic performance, (b) the obligation to absorb the expected losses of the legal entity and (c) the right to receive the expected residual returns of the legal entity; and (3) the voting rights of these investors are proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected returns of their equity, or both, and whether substantially all of the entity's activities involve or are conducted on behalf of an investor that has disproportionately fewer voting rights. An investment that lacks one or more of the above three characteristics is considered to be a VIE. The Company reassesses its initial evaluation of an entity as a VIE based upon changes in the facts and circumstances pertaining to the VIE.

VIEs are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. This determination may involve complex and subjective analyses. In general, the obligation to absorb losses is a function of holding a majority of the first loss tranche, while the ability to direct the activities that most significantly impact the VIEs economic performance will be determined based upon the rights associated with acting as the directing certificate holder, or equivalent, in a given transaction. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period based upon changes in the facts and circumstances pertaining to the VIE.

## **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company has evaluated its Non-Agency RMBS and Multi-Family MBS investments to determine if each represents a variable interest in a VIE. The Company monitors these investments and analyzes them for potential consolidation. The Company's real estate securities investments represent variable interests in VIEs. At September 30, 2015, the Company determined that it was the primary beneficiary of two Multi-Family MBS transactions (FREM F 2011-K13 and FREMF 2012-KF01), and two residential mortgage loan transactions (CSMC 2014-OAK1 and JPMMT 2014-OAK4), in each case based on its power to direct the trust's activities and its obligations to absorb losses derived from the ownership of the first-loss tranches. In the case of the FREMF 2012-KF01 trust, the Company determined that it was primary beneficiary of an intermediate trust that has the power to direct the activities and the obligations to absorb losses of the FREMF 2012-KF01 trust. Accordingly, the Company consolidated the assets, liabilities, income and expenses of each of the underlying trusts, and has elected the fair value option in respect of the assets and liabilities of each trust. At September 30, 2015 and December 31, 2014, with the exception of the listed transactions, the maximum exposure of the Company to VIEs was limited to the fair value of its investment in Non-Agency RMBS and Multi-Family MBS as disclosed in Note 4 (Non-Agency RMBS \$129,863,571 and \$53,485,053, respectively and Multi-Family MBS \$105,630,744 and \$0, respectively).

#### ***Use of Estimates***

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

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash held in bank accounts on an overnight basis. The Company maintains its cash and cash equivalents in highly rated financial institutions, and at times these balances exceed insurable amounts.

***Restricted Cash***

Restricted cash represents the Company's cash held by counterparties as collateral against the Company's securities, derivatives and/or repurchase agreements. Cash held by counterparties as collateral is not available to the Company for general corporate purposes, but may be applied against amounts due to securities, derivatives or repurchase counterparties or returned to the Company when the collateral requirements are exceeded or, at the maturity of the derivative or repurchase agreement.

***Deferred Offering Costs***

In accordance with Accounting Standards Codification ("ASC") Subtopic 505-10, the direct costs incurred to issue shares classified as equity, such as legal and accounting fees, should be deducted from the related proceeds and the net amount recorded as stockholders' equity. Accordingly, payments made by the Company in respect of such costs related to the issuance of shares will be recorded as an asset in the accompanying condensed consolidated balance sheets in the line item "Deferred offering costs", for subsequent deduction from the related proceeds upon closing of the offering.

To the extent that certain costs, in particular legal fees, are known to have been accrued but have not yet been invoiced and paid, they are included in "Other accounts payable and accrued expenses" on the accompanying condensed consolidated balance sheets.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

On April 25, 2014, the Company filed an S-3 registration statement allowing the Company to issue common stock, preferred stock, debt securities and warrants up to a maximum aggregate offering price of \$750,000,000. This registration statement is valid for a three-year period, and accordingly, the Company is amortizing the direct costs incurred in connection with this registration statement on a straight-line basis over three years.

***Deferred Securitization Costs***

Certain direct costs associated with the acquisition of residential mortgage loans are payable by the Company in advance of the subsequent securitization of these loans. To the extent that such costs are expected to be recovered at the time of a forthcoming securitization, payments made by the Company in respect of such costs will be recorded as an asset in the accompanying condensed consolidated balance sheets in the line item "Deferred securitization costs", for subsequent deduction from the securitization proceeds upon closing.

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

***Revenue Recognition, Premium Amortization, and Discount Accretion***

Interest income on the Company's available-for-sale ("AFS") securities portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such securities. The Company recognizes interest income using the effective interest method for all AFS securities. As such, premiums and discounts are amortized or accreted into interest income over the lives of the securities in accordance with ASC 310-20, "Nonrefundable Fees and Other Costs", ASC 320-10, "Investments - Debt and Equity Securities" or ASC 325-40, "Beneficial Interests in Securitized Financial Assets", as applicable. Total interest income will flow through the "Interest Income" line item on the condensed consolidated statement of operations.

On at least a quarterly basis for securities accounted for under ASC 320-10 and ASC 310-20 (generally Agency RMBS), prepayments of the underlying collateral must be estimated, which directly affect the speed at which the

Company amortizes such securities. If actual and anticipated cash flows differ from previous estimates; the Company recognizes a “catch-up” adjustment in the current period to the amortization of premiums for the impact of the cumulative change in the effective yield through the reporting date.

Similarly, the Company also reassesses the cash flows on at least a quarterly basis for securities accounted for under ASC 325-40 (generally Non-Agency RMBS and Multi-Family MBS). In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies. These include the rate and timing of principal and interest receipts (including assumptions of prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. In addition, interest payment shortfalls due to delinquencies on the underlying mortgage loans have to be judgmentally estimated. Differences between previously estimated cash flows and current actual and anticipated cash flows are recognized prospectively through an adjustment of the yield over the remaining life of the security based on the current amortized cost of the investment as adjusted for credit impairment, if any.

For investments purchased with evidence of deterioration of credit quality for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, the Company will apply the provisions of ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality.” ASC 310-30 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor’s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. ASC 310-30 limits the yield that may be accreted (accretable yield) to the excess of the investor’s estimate of undiscounted expected principal, interest and other cash flows (cash flows expected at acquisition to be collected) over the investor’s initial investment in the loan. ASC 310-30 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual or valuation allowance

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Subsequent increases in cash flows expected to be collected are generally recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected are recognized as impairment to the extent that such decreases are due, at least in part, to an increase in credit loss expectations. To the extent that decreases in cash flows expected to be collected are the result of factors other than credit impairment, for example a change in rate of prepayments, such changes are generally recognized prospectively through adjustment of the loan's yield over its remaining life.

The Company's accrual of interest, discount and premium for U.S. federal and other tax purposes is likely to differ from the financial accounting treatment of these items as described above.

Gains and losses from the sale of AFS securities are recorded as realized gains (losses) within realized gain (loss) on sale of investments, net in the Company's condensed consolidated statement of operations. Upon the sale of a security, the Company will determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated other comprehensive income (loss) into earnings based on the specific identification method. Unrealized gains and losses on the Company's AFS securities are recorded as unrealized gain (loss) on available-for-sale securities, net in the Company's condensed consolidated statement of comprehensive income (loss).

***Impairment***

The Company evaluates its MBS, on a quarterly basis, to assess whether a decline in the fair value of an AFS security below the Company's amortized cost basis is an other-than-temporary impairment ("OTTI"). The presence of OTTI is based upon a fair value decline below a security's amortized cost basis and a corresponding adverse change in expected cash flows due to credit related factors as well as non-credit factors, such as changes in interest rates and market spreads. Impairment is considered other-than-temporary if an entity (i) intends to sell the security, (ii) will more likely than not be required to sell the security before it recovers in value or (iii) does not expect to recover the security's amortized cost basis, even if the entity does not intend to sell the security. Under these scenarios, the impairment is other-than-temporary and the full amount of impairment should be recognized currently in earnings and the cost basis of the investment security is adjusted. However, if an entity does not intend to sell the impaired debt security and it is more likely than not that it will not be required to sell before recovery, an OTTI should be recognized to the extent that a decrease in future cash flows expected to be collected is due, at least in part, to an increase in credit loss expectations ("credit impairment"). A decrease in future cash flows due to factors other than credit, for example a



change in the rate of prepayments, is considered a non-credit impairment. The full amount of the difference between the security's previous and new cost basis resulting from credit impairment is recognized currently in earnings, and the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as interest income in accordance with the effective interest method. Decreases in cash flows expected to be collected resulting from non-credit impairment are generally recognized prospectively through adjustment of the loan's yield over its remaining life.

***Mortgage Loans Held-for-Sale, at Fair Value***

Mortgage loans held-for-sale are reported at fair value as a result of a fair value option election. See Note 3 – Fair Value Measurements for details on fair value measurement. Mortgage loans are currently classified as held-for-sale based upon the Company's intent to sell them either in the secondary whole loan market or to include them in a securitization, including transfers to securitization entities that the Company sponsors and expects to be accounted for as sales for financial reporting purposes.

Interest income on mortgage loans held-for-sale is recognized at the loan coupon rate. Interest income recognition is suspended when mortgage loans are placed on non-accrual status. The accrual of interest on loans is discontinued when, in management's opinion, the interest is considered non-collectible, and in all cases when payment becomes greater than 90 days past due. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Multi-Family and Residential Mortgage Loans Held in Securitization Trusts***

Multi-family and residential mortgage loans held in securitization trusts are comprised of multi-family mortgage loans held in the FREMF 2011-K13 Trust and the FREMF 2012-KF01 Trust, and residential mortgage loans held in the CSMC 2014-OAK1 Trust and the JPMMT 2014-OAK4 Trust, as of September 30, 2015. Based on a number of factors, the Company determined that it was the primary beneficiary of the VIEs underlying the trusts, met the criteria for consolidation and, accordingly, has consolidated the four trusts, including their assets, liabilities, income and expenses in its financial statements. The Company has elected the fair value option on each of the assets and liabilities held within the trusts. See Note 3 – Fair Value Measurement below for additional detail.

Interest income on multi-family and residential mortgage loans held in securitization trusts is recognized at the loan coupon rate. Interest income recognition is suspended when mortgage loans are placed on non-accrual status. The accrual of interest on loans is discontinued when, in management's opinion, the interest is considered non-collectible, and in no case when payment becomes greater than 90 days past due. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

***Mortgage Servicing Rights and Excess Servicing Rights, at Fair Value***

Mortgage servicing rights ("MSRs") are associated with residential mortgage loans that the Company has purchased and subsequently sold or securitized. MSRs are held and managed at our TRS. As the owner of MSRs, the Company is entitled to receive a portion of the interest payments from the associated residential mortgage loan, and is obligated to service directly or through a subservicer, the associated loan. MSRs are reported at fair value as a result of a fair value option election. See Note 3 – Fair Value Measurement below for additional detail. Residential mortgage loans for which the Company owns the MSRs are directly serviced by one or more sub-servicers retained by the Company, since the Company does not originate or directly service any residential mortgage loans.

MSR income is recognized at the contractually agreed rate, net of the costs of sub-servicers retained by the Company. If a sub-servicer with whom the Company contracts were to default, an evaluation of MSR assets for impairment would be undertaken at that time.

To the extent that the Company determines it is the primary beneficiary of a residential mortgage loan securitization trust into which it has sold loans, any associated MSRs are eliminated on the consolidation of the trust. The trust is contractually obligated to pay a portion of the interest payments from the associated residential mortgage loans for the direct servicing of the loans, and after deduction of sub-servicing fees payable to contracted sub-servicers, the net amount, excess servicing rights, represents a liability of the trust. See Note 3 – Fair Value Measurement below for additional detail.

### ***Repurchase Agreements***

The Company finances the acquisition of certain of its mortgage-backed securities through the use of repurchase agreements. The repurchase agreements are generally short-term debt, which expire within one year. Borrowings under repurchase agreements generally bear interest rates at a specified margin over LIBOR and are generally uncommitted. In accordance with ASC 860 “Transfers and Servicing” the Company accounts for the repurchase agreements, other than those treated as Linked Transactions (see Note 3 – Accounting for Derivative Financial Instruments – Non-Hedging Activity/Linked Transactions below), as collateralized financing transactions and they are carried at their contractual amounts, as specified in the respective agreements. The contractual amounts approximate fair value due to their short-term nature.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Residential Loan Warehouse Facilities***

The Company finances the acquisition of certain of its residential mortgage loans through the use of short-term, uncommitted residential loan warehouse facilities, which are currently structured as repurchase agreements. The Company accounts for outstandings under these facilities as collateralized financing transactions which are carried at its contractual amount, and approximate fair value due to their short-term nature.

***Secured Loans***

In February 2015, the Company's wholly owned subsidiary, FOI, became a member of FHLBI. As a member of FHLBI, FOI may borrow funds from FHLBI in the form of secured advances ("FHLB advances"). FHLB advances are treated as secured financing transactions and are carried at their contractual amounts. In connection with FHLB advances, FOI is required to purchase FHLBI stock, which is recorded on the Company's condensed consolidated balance sheet as an asset.

***Multi-Family and Residential Securitized Debt Obligations***

Multi-family and residential securitized debt obligations represent third-party liabilities of the FREMF 2011-K13 Trust, FREMF 2012-KF01 Trust, JPMMT 2014-OAK4 Trust and CSMC 2014-OAK1 Trust, and excludes liabilities of the trust acquired by the Company that are eliminated on consolidation. The third-party obligations of each trust do not have any recourse to the Company as the consolidator of each trust.

***Income Taxes***

The Company has elected to be taxed as a REIT under the Code for U.S. federal income tax purposes, commencing with the Company's short taxable period ended December 31, 2012. So long as the Company qualifies as a REIT, the Company generally will not be subject to U.S. federal income taxes on its taxable income to the extent it annually distributes at least 90% of its net taxable income to shareholders and maintains its qualification as a REIT.

In addition to the Company's election to be taxed as a REIT, the Company complies with Sections 856 through 859 of the Code. Accordingly, the Company generally will not be subject to U.S. federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and share ownership tests are met. To maintain its qualification as a REIT, the Company must distribute at least 90% of its REIT taxable income to its stockholders and meet certain other requirements. The Company may also be subject to certain state, local and franchise taxes. Under certain circumstances, federal income and excise taxes may be due on its undistributed taxable income. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders. The Company believes it will meet all of the criteria to maintain the Company's REIT qualification for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods.

The Company does not have any material uncertain tax positions at this time. The Company's accounting policy with respect to interest and penalties is to classify these amounts as interest expense. The Company has not recognized any such amounts related to uncertain tax positions as of the balance sheet date.

Certain activities of the Company are conducted through a TRS and therefore will be taxed as a standalone U.S. C-Corporation.

If a TRS generates net income, the TRS can declare dividends to the Company which will be included in its taxable income and necessitate a distribution to its stockholders. Conversely, if the Company retains earnings at a TRS level, no distribution is required and the Company can increase book equity of the consolidated entity.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Earnings per Share***

The Company calculates basic and diluted earnings per share by dividing net income attributable to common stockholders for the period by the weighted-average shares of the Company's common stock outstanding for that period. Diluted earnings per share takes into account the effect of dilutive instruments, such as warrants, stock options, and unvested restricted stock, but use the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding. See Note 16 for details of the computation of basic and diluted earnings per share.

***Stock-Based Compensation***

The Company is required to recognize compensation costs relating to stock-based payment transactions in the financial statements. The Company accounts for share-based compensation issued to its Manager and non-management directors using the fair value based methodology prescribed by ASC 718, *Share-Based Payment* ("ASC 718"). Compensation cost related to restricted common stock issued to the Manager is initially measured at estimated fair value at the grant date, and is remeasured on subsequent dates to the extent the awards are unvested. Additionally, compensation cost related to restricted common stock issued to the non-management directors is measured at its estimated fair value at the grant date and amortized and expensed over the vesting period. See Note 14 for details of stock-based awards issuable under the Manager Equity Plan.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is comprised of net income, as presented in the condensed consolidated statement of comprehensive income (loss), adjusted for changes in unrealized gain or loss on AFS securities.

***Recently Issued and/or Adopted Accounting Standards***

***Revenue from Contracts with Customers***

In May 2014, the FASB issued ASU No. 2014-09, which is a comprehensive revenue recognition standard that supersedes virtually all existing revenue guidance under U.S. GAAP. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU is effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2016, with early adoption prohibited. The Company has determined this ASU will not have a material impact on the Company's financial condition or results of operations.

***Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures***

In June 2014, the FASB issued ASU No. 2014-11, which requires repurchase-to-maturity transactions to be accounted for as secured borrowings, eliminates the existing guidance for repurchase financings, and requires new disclosures for certain transactions accounted for as secured borrowings and sales. This ASU is effective for the first interim or annual period beginning after December 15, 2014, except for the disclosures related to transactions accounted for as secured borrowings, which are effective for periods beginning on or after March 15, 2015. Adoption of this ASU did not have any impact on the Company's financial condition, but did impact financial statement disclosures as further described in Note 3.

***Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity***

In August 2014, the FASB issued ASU No. 2014-13, which updates the guidance on measuring the financial assets and financial liabilities of consolidated collateralized financing entities, or CFEs. The update allows an entity to measure both the financial assets and financial liabilities of a qualifying CFE it consolidates using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable. The ASU requires certain recurring disclosures and is effective for annual periods beginning on or after December 15, 2015, with early adoption permitted as of the beginning of an annual period. Early adoption of this ASU was applied, which did not have a material impact on the Company's financial condition, but did impact financial statement disclosures as further described in Note 3.

***Amendments to the Consolidation Analysis***

In February 2015, the FASB issued ASU No. 2015-02, which changes the guidance on the consolidation of certain investment funds as well as both the variable interest model and the voting model. The ASU requires certain recurring

disclosures and is effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2015, with early adoption permitted. The Company is currently assessing the impact of this guidance.

### **NOTE 3 – FAIR VALUE MEASUREMENTS**

The Company discloses the fair value of its financial instruments according to a fair value hierarchy (Levels 1, 2 and 3, as defined). In accordance with U.S. GAAP, the Company is required to provide enhanced disclosures regarding instruments in the Level 3 category (which require significant management judgment), including a separate reconciliation of the beginning and ending balances for each major category of assets and liabilities.

Additionally, U.S. GAAP permits entities to choose to measure many financial instruments and certain other items at fair value (the “fair value option”), and the election of such choice is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are irrevocably recognized in earnings at each subsequent reporting date.

#### ***Available-for-sale Securities***

The Company currently invests in Non-Agency RMBS, Agency RMBS and Multi-Family MBS.

#### ***Designation***

The Company classifies its MBS securities as AFS investments. Although the Company generally intends to hold most of its investment securities until maturity, it may, from time to time, sell any of its investment securities as part of the overall management of its portfolio. All assets classified as AFS are reported at estimated fair value, with unrealized gains and losses, excluding other than temporary impairments, included in accumulated other comprehensive income, a separate component of shareholders' equity.



## **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

### **NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)**

#### *Determination of MBS Fair Value*

The Company determines the fair values for the Non-Agency RMBS, Agency RMBS and Multi-Family MBS in its portfolio based on obtaining a valuation for each Non-Agency RMBS, Agency RMBS and Multi-Family MBS from third-party pricing services, and may also obtain dealer quotes, as described below. The third-party pricing services use common market pricing methods that may include pricing models that may incorporate such factors as coupons, prepayment speeds, spread to the Treasury curves and interest rate swap curves, duration, periodic and life caps and credit enhancement, as applicable. The dealers incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security, including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security, as applicable.

The Company obtains pricing data from a primary third-party pricing service for each Non-Agency RMBS, Agency RMBS and Multi-Family MBS. If other available market data indicates that the pricing data from the primary third-party service is materially inaccurate, or pricing data is unavailable from the primary third-party pricing service, the Company shall undertake a review of other available prices and shall take additional steps to determine fair value. In all cases, the Company validates its understanding of methodology and assumptions underlying the fair value used. The Company will determine that the pricing data from the primary third-party service is materially inaccurate if it is not materially representative of where a specific security can be traded in the normal course of business. In making such determination, the Company will follow a series of steps, including review of collateral marks from margin departments of repo counterparties, utilization of bid list, inventory list and extensive unofficial market color, review of other third-party pricing service data and a yield analysis of each Non-Agency RMBS and Multi-Family MBS based on the pricing data from the primary third-party service data, and a yield analysis of each non-Agency RMBS and Multi-Family MBS based on the pricing data from the primary third-party service and the Company's cashflow assumptions.

The Company reviews all pricing of Non-Agency and Agency RMBS and Multi-Family MBS used to ensure that current market conditions are properly represented. This review includes, but is not limited to, comparisons of similar market transactions or alternative third-party pricing services, dealer quotes and comparisons to a pricing model. Values obtained from the third-party pricing service for similar instruments are classified as Level 2 securities if the pricing methods used are consistent with the Level 2 definition. If quoted prices for a security are not reasonably available from the pricing service, but dealer quotes are, the Company classifies the security as a Level 2 security. If neither is available, the Company determines the fair value based on characteristics of the security that are received

from the issuer and based on available market information received from dealers and classifies it as a Level 3 security.

### ***Mortgage Loans Held-for-sale***

#### ***Designation***

The Company currently classifies its residential mortgage loans as held-for-sale (“HFS”) investments. HFS residential mortgage loans include loans that the Company is marketing for sale to third parties, including transfers to securitization trusts.

The Company elected the fair value option for residential mortgage loans it has acquired and classifies as HFS. The fair value option was elected to help mitigate earnings volatility by better matching the asset accounting with any related hedges. The Company’s policy is to record separately interest income on these fair value elected loans. Additionally, upfront and costs related to these loans are not deferred or capitalized. Fair value adjustments are reported in gain (loss) on mortgage loans held-for-sale on the condensed consolidated statements of operations. The fair value option is irrevocable once the loan is acquired.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)**

*Determination of Mortgage Loan Fair Value*

The Company determines the fair values of the mortgage loans in its portfolio from third-party pricing services. The third-party pricing services use common market pricing methods which may include pricing models that may incorporate such factors as coupons, prepayment speeds, spread to the Treasury curves and interest rate swap curves, duration, periodic and life caps, as applicable. In addition, the third-party pricing services benchmark their pricing models against observable pricing levels being quoted by a range of market participants active in the purchase and sale of residential mortgage loans.

The Company obtains pricing data from a primary third-party pricing service for each mortgage loan. If other available market data indicates that the pricing data from the primary third-party service is materially inaccurate, or pricing data is unavailable from the primary third-party pricing service, the Company undertakes a review of other available prices and takes additional steps to determine fair value. In all cases, the Company validates its understanding of methodology and assumptions underlying the fair value used. The Company will determine that the pricing data from the primary third-party service is materially inaccurate if it is not materially representative of the price at which a specific loan can be traded in the normal course of business, and/or is materially divergent from the price at which the Company would be willing to purchase such a loan in the normal course of its business.

The Company reviews all pricing of mortgage loans used to ensure that current market conditions are properly represented. This review includes, but is not limited to, comparisons of similar market transactions or alternative third-party pricing services, dealer quotes and comparisons to a pricing model. Values obtained from the third-party pricing service for similar instruments are classified as Level 2 assets if the pricing methods used are consistent with the Level 2 definition. If quoted prices for a loan are not reasonably available from the pricing service, but alternative quotes are, the Company classifies the loan as a Level 2 asset. If neither is available, the Company determines the fair value based on characteristics of the loan and based on other available market information and classifies it as a Level 3 asset.

*MSRs and Excess Servicing Rights*

*Designation*

MSRs are associated with residential mortgage loans that the Company has purchased and subsequently sold or securitized, and are typically acquired directly from loan originators and recognized at the time that loans are transferred to a third party or a securitization, in each case providing such transfer meets the GAAP criteria for sale. The Company retains the rights to service certain loans that it sells or securitizes, but employs one or more sub-servicers to perform the servicing activities.

To the extent that the Company determines it is the primary beneficiary of a residential mortgage loan securitization trust into which it has sold loans, any associated MSRs are eliminated on the consolidation of the trust. The trust is contractually obligated to pay a portion of the interest payments from the associated residential mortgage loans for the direct servicing of the loans, and after deduction of sub-servicing fees payable to contracted sub-servicers, the net amount, excess servicing rights, represents a liability of the trust. Upon consolidation of the trust, the fair value of the excess servicing rights is equal to the related MSRs held at the Company's TRS.

The Company has elected the fair value option in respect of MSRs.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)**

*Determination of Fair Value*

The Company determines the fair value of its MSRs from third-party pricing services. The third-party pricing services use common market pricing methods that include market discount rates, prepayment speeds of serviced loans, the market cost of servicing, and observed market pricing for MSR purchase and sale transactions. Changes in the fair value of MSRs occur primarily as a result of the collection and realization of expected cashflows, as well as changes in valuation inputs and assumptions.

The Company obtains MSR pricing data from a primary third-party pricing service, and validates its understanding of methodology and assumptions underlying the fair value used. Fair values are estimated based on applying inputs to generate the net present value of estimated net servicing income, and as a consequence of the fact that these discounted cashflow models utilize certain significant unobservable inputs and observable MSR purchase and sale transactions are relatively infrequent, the Company classifies MSRs as a Level 3 asset.

See Note 12 for a further presentation on MSRs.

***Multi-Family Mortgage Loans Held in Securitization Trusts and Multi-Family Securitized Debt Obligations***

*Designation*

Multi-family mortgage loans held in securitization trusts are comprised of multi-family mortgage loans held in the FREMF 2011-K13 Trust and the FREMF 2012-KF01 Trust as of September 30, 2015. Based on a number of factors, the Company determined that it was the primary beneficiary of the VIEs underlying the trusts, met the criteria for consolidation and, accordingly, has consolidated the FREMF 2011-K13 Trust and the FREMF 2012-KF01 Trust, including their assets, liabilities, income and expenses in its financial statements. The Company has elected the fair value option on each of the assets and liabilities held within the trusts.

*Determination of Fair Value*

As noted earlier, the Company has early adopted ASU 2014-13, and has elected the fair value option in respect of the assets and liabilities of the FREMF 2011-K13 Trust and the FREMF 2012-KF01 Trust. The trusts are “static”, that is no reinvestment is permitted and there is very limited active management of the underlying assets. Under the ASU, the Company is required to determine whether the fair value of the financial assets or the fair value of the financial liabilities of each of the trusts is more observable, but in either case, the methodology results in the fair value of the assets of each of the trusts being equal to the fair value of their liabilities. The Company has determined that the fair value of the liabilities of each of the trusts is more observable, since in all cases prices for the liabilities are available from the primary third-party pricing service utilized for Multi-Family MBS, while the individual assets of each of the trusts are inherently incapable of precise measurement given their illiquid nature and the limitations on available information related to these assets. Given that the Company’s methodology for valuing the assets of the trusts is an aggregate value derived from the fair value of the trust’s liabilities, the Company has determined that the valuation of the trust’s assets in their entirety should be classified as Level 2 valuations.

***Residential Mortgage Loans Held in Securitization Trusts and Residential Securitized Debt Obligations***

*Designation*

Residential mortgage loans held in securitization trusts are comprised of residential mortgage loans held in the CSMC 2014-OAK1 Trust and the JPMMT 2014-OAK4 Trust as of September 30, 2015. Based on a number of factors, the Company determined that it was the primary beneficiary of the VIEs underlying the trusts, met the criteria for consolidation and, accordingly, has consolidated the CSMC 2014-OAK1 Trust and the JPMMT 2014-OAK4 Trust including their assets, liabilities, income and expenses in its financial statements. The Company has elected the fair value option on each of the assets and liabilities held within each of the trusts.

## **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

### **NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)**

#### *Determination of Fair Value*

As noted earlier, the Company has early adopted ASU 2014-13, and has elected the fair value option in respect of the assets and liabilities of the CSMC 2014-OAK1 Trust and the JPMMT 2014-OAK4 Trust. The trusts are “static”, that is no reinvestment is permitted and there is very limited active management of the underlying assets. Under the ASU, the Company is required to determine whether the fair value of the financial assets or the fair value of the financial liabilities of each of the trusts is more observable, but in either case, the methodology results in the fair value of the assets of each of the trusts being equal to the fair value of their liabilities. The Company has determined that the fair value of the liabilities of each of the trusts is more observable, since in all cases prices for the liabilities are available from the primary third-party pricing service utilized for Non-Agency RMBS, with the exception of the excess servicing rights, which are available from an alternative third-party pricing service. While the individual assets of the trusts, i.e. the underlying residential mortgage loans, are capable of being priced, the Company has determined that the pricing of the liabilities is more easily and readily determined. Given that the Company’s methodology for valuing the assets of the trusts is an aggregate value derived from the fair value of the trusts liabilities, the Company has determined that the valuation of the trusts assets in their entirety should be classified as Level 2 valuations.

#### *Accounting for Derivative Financial Instruments*

In accordance with FASB guidance ASC 815 “Derivatives and Hedging”, all derivative financial instruments, whether designated for hedging relationships or not, are recorded at fair value on the condensed consolidated balance sheet as assets or liabilities. The Company obtains valuation information for each derivative financial instrument from the related derivative counterparty. If other available market data indicates that the valuation information from the counterparty is materially inaccurate, or pricing data is unavailable from the counterparty, the Company shall undertake a review of other available valuation information, including third party pricing services and/or dealers, and shall take additional steps to determine fair value. The Company reviews all valuations of derivative financial instruments used to ensure that current market conditions are properly represented. This review includes, but is not limited to, comparisons of similar market transactions or alternative third-party pricing services, dealer quotes and comparisons to a pricing model. Values obtained from the derivative counterparty, the third-party pricing service or dealers, as appropriate, for similar instruments are classified as Level 2 valuations if the pricing methods used are consistent with the Level 2 definition. If none of these sources is available, the Company determines the fair value based on characteristics of the instrument and based on available market information received from dealers and classifies it as a Level 3 valuation.

At the inception of a derivative contract, the Company determines whether or not the instrument will be part of a qualifying hedge accounting relationship. Due to the volatility of the credit markets and difficulty in effectively matching pricing or cash flows, the Company has elected to treat all current derivative contracts as trading instruments. The changes in fair value of derivatives accounted for as trading instruments are reported in the condensed consolidated statement of operations as unrealized gain (loss) on derivative contracts, net.

The Company enters into interest rate derivative contracts for a variety of reasons, including minimizing significant fluctuations in earnings or market values on certain assets or liabilities that may be caused by changes in interest rates. The Company may, at times, enter into various forward contracts, including short securities, Agency to-be-announced securities ("TBAs"), options, futures, swaps and caps. Due to the nature of these instruments, they may be in a receivable/asset position or a payable/liability position at the end of an accounting period. Amounts payable to, and receivable from, the same party under contracts may be offset as long as the following conditions are met: (a) each of the two parties owes the other determinable amounts; (b) the reporting party has the right to offset the amount owed with the amount owed by the other party; (c) the reporting party intends to offset; and (d) the right of offset is enforceable by law. If the aforementioned conditions are not met, amounts payable to and receivable from are presented by the Company on a gross basis in the condensed consolidated balance sheet.



## **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

### **NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)**

#### *Non-Hedging Activity – Linked Transactions*

With effect from January 1, 2015, ASU 2014-11 changed the basis on which the Company accounts for repurchase to maturity transactions and linked repurchase financings to be consistent with the basis which on the Company accounts for secured borrowings. Accordingly, the assets and repurchase agreements that encompass linked transactions that were previously accounted for on a net basis and recorded as a forward purchase (derivative) contract are now bifurcated, and the gross amounts are reported in available-for-sale securities and repurchase agreements respectively.

Prior to adoption of ASU 2014-11, it was presumed that the initial transfer of a financial asset (i.e. the purchase of an MBS by the Company) and contemporaneous repurchase financing of such MBS with the same counterparty are considered part of the same arrangement, or a “linked transaction”, unless certain criteria are met. The two components of a linked transaction (MBS purchase and repurchase financing) were accounted for on a net basis and recorded as a forward purchase (derivative) contract (each a Linked Transaction) at fair value on the Company’s condensed consolidated balance sheet in the line item “Linked Transactions, net, at fair value”. Changes in the fair value of the assets and liabilities underlying linked transactions and associated interest income and expense were reported as “Unrealized gain and net interest income from Linked Transactions”, on the Company’s condensed consolidated statement of operations. When or if a transaction was no longer considered to be linked, the MBS and repurchase financing were reported on a gross basis. In this case, the fair value of the MBS at the time the transactions were no longer considered linked became the cost basis of the MBS, and the income recognition yield for such MBS was calculated prospectively using this new cost basis. (See Notes 10 and 11).

See Note 11 for specific disclosures regarding the location and amounts of derivative instruments in the financial statements and the accounting for derivative instruments and related hedged items.

#### *Other Financial Instruments*

The carrying value of short term instruments, including cash and cash equivalents, receivables and repurchase agreements whose term is less than twelve months, generally approximates fair value due to the short term nature of the instruments.

FHLBI stock, which FOI is required to purchase under a borrowing agreement with FHLBI, is redeemable at face value, which represents the carrying value and fair value of the stock.

#### **NOTE 4 – AVAILABLE-FOR-SALE SECURITIES**

With effect from January 1, 2015, ASU 2014-11 changed the basis on which the Company accounts for repurchase to maturity transactions and linked repurchase financings to be consistent with the basis on which the Company accounts for secured borrowings. Accordingly, the assets and repurchase agreements that encompass linked transactions that were previously accounted for on a net basis and recorded as a forward purchase (derivative) contract are now bifurcated, and the gross amounts are reported in available-for-sale securities and repurchase agreements separately. Consequently, the Company's GAAP financial statements as of and for the period ended September 30, 2015 are not directly comparable to prior period GAAP financials.

# **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

## **NOTE 4 – AVAILABLE-FOR-SALE SECURITIES (Continued)**

The following table presents the Company's AFS investment securities by collateral type at fair value as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Mortgage-backed securities:		
Agency		
Federal Home Loan Mortgage Corporation	\$ 86,336,350	\$ 162,344,627
Federal National Mortgage Association	140,728,221	152,486,058
Non-Agency	129,863,571	53,485,053
Multi-Family	105,630,744	-
Total mortgage-backed securities	\$ 462,558,886	\$ 368,315,738

The following tables present the amortized cost and fair value of the Company's AFS investment securities by collateral type as of September 30, 2015 and December 31, 2014:

	September 30, 2015			
	Agency	Non-Agency <sup>(1)</sup>	Multi-Family	Total
Face Value	\$ 222,488,315	\$ 171,819,640	\$ 138,913,808	\$ 533,221,763
Unamortized premium	1,195,567	65,543	-	1,261,110
Unamortized discount				
Designated credit reserve and OTTI	-	(13,963,388 )	-	(13,963,388 )
Net, unamortized	(1,667,139 )	(31,972,824 )	(34,699,352 )	(68,339,315 )
Amortized Cost	222,016,743	125,948,971	104,214,456	452,180,170
Gross unrealized gain	5,245,272	2,498,770	2,194,830	9,938,872
Gross unrealized (loss)	(197,444 )	(1,791,201 )	(778,542 )	(2,767,187 )
Fair Value	\$ 227,064,571	\$ 126,656,540	105,630,744	\$ 459,351,855

	December 31, 2014		
	Agency	Non-Agency	Total
Face Value	\$ 309,790,551	\$ 76,672,548	\$ 386,463,099
Unamortized premium	4,796,106	-	4,796,106
Unamortized discount			
Designated credit reserve	-	(12,697,796 )	(12,697,796 )

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Net, unamortized	(2,244,687 )	(15,209,335)	(17,454,022 )
Amortized Cost	312,341,970	48,765,417	361,107,387
Gross unrealized gain	3,670,643	4,732,247	8,402,890
Gross unrealized (loss)	(1,181,928 )	(12,611 )	(1,194,539 )
Fair Value	\$314,830,685	\$53,485,053	\$368,315,738

(1) Non-Agency AFS does not include interest-only securities with a notional amount of \$214,5650,271, book value of \$3,832,990, unrealized loss of \$625,959 and a fair value of \$3,207,031.

Discount designated as Credit Reserve and amount related to OTTI are generally not expected to be accreted into (2) interest income. Amounts disclosed at September 30, 2015 reflect Credit Reserve of \$1,761,208 and OTTI of \$2,890,939.

# **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

## **NOTE 4 – AVAILABLE-FOR-SALE SECURITIES (Continued)**

At September 30, 2015, the Company did not intend to sell any of its MBS that were in an unrealized loss position, and it is “more likely than not” that the Company will not be required to sell these MBS before recovery of their amortized cost basis, which may be at their maturity.

The Company recognized credit-related OTTI losses through earnings of \$350,924 on two Non-Agency RMBS during the three months ended on September 30, 2015.

Non-Agency RMBS on which OTTI is recognized have experienced, or are expected to experience, credit-related adverse cash flow changes, or credit impairment. The Company’s estimate of cash flows for its Non-Agency RMBS is based on its review of the underlying mortgage loans securing these RMBS. The Company considers information available about the structure of the securitization, including structural credit enhancement, if any, and the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, FICO scores at loan origination, year of origination, loan-to-value ratios, geographic concentrations, as well as Rating Agency reports, general market assessments, and dialogue with market participants. Significant judgment is used in both the Company’s analysis of the expected cash flows for its Non-Agency RMBS and any determination of OTTI that is the result, at least in part, of credit impairment.

The following table presents the composition of OTTI charges recorded by the Company for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
(Increase)/decrease in credit reserves	\$ (350,924 )	\$ -
Additional other-than-temporary credit impairment losses		-
Total impairment losses recognized in earnings	(350,924 )	-
	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
(Increase)/decrease in credit reserves	\$ (1,761,208 )	\$ -

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Additional other-than-temporary credit impairment losses	(2,890,939	)	-
Total impairment losses recognized in earnings	(4,652,147	)	-

Unrealized losses on the Company's Non-Agency RMBS were \$1.8 million at September 30, 2015. Based upon the most recent evaluation, the Company does not consider these unrealized losses to be indicative of OTTI and does not believe that these unrealized losses to be credit related, but are rather due to non-credit factors, including changes in the rate of prepayments.

To the extent the Company determines there are likely to be decreases in cash flows expected to be collected, and as a result of non-credit impairment, such changes are generally recognized prospectively through adjustment of the loan's yield over its remaining life.

The following table presents a summary of the Company's net realized gain (loss) from the sale of AFS securities, inclusive of securities previously booked as linked, for the three months ended September 30, 2015 and September 30, 2014:

# **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

## **NOTE 4 – AVAILABLE-FOR-SALE SECURITIES (Continued)**

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
AFS securities sold, at cost	\$ 81,417,531	\$ 80,162,958
Proceeds from AFS securities sold	82,865,471	81,394,245
Net realized gain (loss) on sale of AFS securities	\$ 1,447,940	\$ 1,231,287

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
AFS securities sold, at cost	\$ 188,385,533	\$ 186,909,115
Proceeds from AFS securities sold	190,474,737	184,929,385
Net realized gain (loss) on sale of AFS securities	\$ 2,089,204	\$ (1,979,730 )

The following tables present the fair value of AFS investment securities by rate type as of September 30, 2015 and December 31, 2014:

	September 30, 2015			
	Agency	Non-Agency	Multi-Family	Total
Adjustable rate	\$210,962,142	\$129,863,571	\$-	\$340,825,713
Fixed rate	16,102,429	-	105,630,744	121,733,173
Total	\$227,064,571	\$129,863,571	\$105,630,744	\$462,558,886

	December 31, 2014		
	Agency	Non-Agency	Total
Adjustable rate	\$229,648,342	\$53,485,053	\$283,133,395
Fixed rate	85,182,343	-	85,182,343
Total	\$314,830,685	\$53,485,053	\$368,315,738

The following tables present the fair value of AFS investment securities by maturity date as of September 30, 2015 and December 31, 2014:

September 30, 2015    December 31, 2014

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Less than one year	\$ -	\$ -
Greater than one year and less than five years	64,655,165	35,855,146
Greater than or equal to five years	397,903,721	332,460,592
Total	\$ 462,558,886	\$ 368,315,738

As described in Note 3, when the Company purchases a credit-sensitive AFS security at a significant discount to its face value, the Company generally does not amortize into income a significant portion of this discount that the Company is entitled to earn because it does not expect to collect it due to the inherent credit risk of the security. The Company may also record an OTTI for a portion of its investment in the security to the extent the Company believes that the amortized cost will exceed the present value of expected future cash flows. The amount of principal that the Company does not amortize into income is designated as an off balance sheet credit reserve on the security, with unamortized net discounts or premiums amortized into income over time to the extent realizable.



**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 4 – AVAILABLE-FOR-SALE SECURITIES (Continued)**

Actual maturities of AFS securities are affected by the contractual lives of the associated mortgage collateral, periodic payments of principal, and prepayments of principal. Therefore actual maturities of available-for-sale securities are generally shorter than stated contractual maturities. Stated contractual maturities are generally greater than ten years.

The following tables present the changes for the nine months ended September 30, 2015 and year ended December 31, 2014 of the unamortized net discount and designated credit reserves on the Company's MBS.

	September 30, 2015		
	Designated credit reserve	Unamortized net discount	Total
Beginning Balance as of January 1, 2015	\$(49,325,117)	\$(64,545,980)	\$(113,871,097)
Acquisitions	-	(22,597,930)	(22,597,930 )
Dispositions	26,796,927	10,514,689	37,311,616
Accretion of net discount	-	10,993,149	10,993,149
Realized gain on paydowns	-	188,250	188,250
Realized credit losses	8,915,172	(2,890,939 )	6,024,233
Addition to credit reserves	(2,669,938 )	2,319,014	(350,924)
Release of credit reserves	2,319,568	(2,319,568 )	-
Ending balance at September 30, 2015	\$(13,963,388)	\$(68,339,315)	\$(82,302,703 )

	December 31, 2014		
	Designated credit reserve	Unamortized net discount	Total
Beginning Balance as of January 1, 2014	\$(16,126,355)	\$(22,400,380)	\$(38,526,735)
Acquisitions	-	(2,361,186 )	(2,361,186 )
Accretion of net discount	559,860	1,667,828	2,227,688
Realized gain on paydowns	-	4,760,729	4,760,729
Realized credit losses	-	223,212	223,212
Release of credit reserves	2,868,699	-	2,868,699
Ending balance at December 31, 2014	-	655,775	655,775
	\$(12,697,796)	\$(17,454,022)	\$(30,151,818)

Gains and losses from the sale of AFS securities are recorded within realized gain (loss) on sale of investments, net in the Company's condensed consolidated statements of operations.

Unrealized gains and losses on the Company's AFS securities are recorded as unrealized gain (loss) on available-for-sale securities, net in the Company's condensed consolidated statement of comprehensive income (loss). For the three and nine months ended September 30, 2015, the Company had unrealized gains (losses) on AFS securities of \$174,779 and \$3,638,597, respectively.

The following tables present components of interest income on the Company's AFS securities for the three months ended September 30, 2015 and September 30, 2014 and nine months ended September 30, 2015 and September 30, 2014:

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 4 – AVAILABLE-FOR-SALE SECURITIES (Continued)**

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Coupon	Net (premium	Interest	Coupon	Net (premium	Interest
	interest	amortization)/	income	interest	amortization)/	income
		discount accretion			discount accretion	
Agency	\$ 1,338,227	\$ 194,587	\$ 1,532,814	\$ 3,161,200	\$ 229,475	3,390,675
Non-Agency	623,153	1,607,039	2,230,192	45,468	1,017,574	1,063,042
Multi-Family	272,455	1,425,504	1,697,959	56,099	4,183	60,282
Total	\$ 2,233,835	\$ 3,227,130	\$ 5,460,965	\$ 3,262,767	\$ 1,251,232	\$ 4,513,999

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Coupon	Net (premium	Interest	Coupon	Net (premium	Interest
	interest	amortization)/	income	interest	amortization)/	income
		discount accretion			discount accretion	
Agency	\$ 5,225,240	\$ 498,392	\$ 5,723,632	\$ 8,931,583	\$ 441,482	\$ 9,373,065
Non-Agency	1,498,360	6,747,357	8,245,717	219,928	3,102,041	3,321,969
Multi-Family	1,184,978	3,866,177	5,051,155	184,594	24,610	209,204
Total	\$ 7,908,578	\$ 11,111,926	\$ 19,020,504	\$ 9,336,105	\$ 3,568,133	\$ 12,904,238

**NOTE 5 – MORTGAGE LOANS HELD-FOR-SALE, at FAIR VALUE**

Mortgage loans held-for-sale consists of residential mortgage loans carried at fair value as a result of the fair value option. The following table presents the carrying value of the Company's mortgage loans held-for-sale as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Unpaid principal balance	\$ 61,173,850	\$ 54,348,654
Fair value adjustment	826,015	329,728
Carrying value	\$ 61,999,865	\$ 54,678,382

At September 30, 2015 and December 31, 2014, the Company pledged mortgage loans with a fair value of \$62.0 million and \$54.7, respectively, as collateral for repurchase or warehouse agreements. See Note 10 – *Borrowings*.

The geographic concentrations of credit risk exceeding 5% of the total loan balances related to the mortgage loans held-for-sale as of September 30, 2015 are as follows:

	September 30, 2015	
Massachussetts	25.2	%
California	24.0	%
New Jersey	9.5	%
Texas	8.3	%

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 6 – THE FREMF TRUSTS**

The Company has elected the fair value option on the assets and liabilities of the FREMF 2011-K13 Trust and the FREMF 2012-KF01 Trust, which requires that changes in valuations of the trusts be reflected in the Company's statements of operations. The Company's net investment in the trusts is limited to the Multi-Family MBS comprised of first loss PO securities and IO securities acquired by the Company in 2014 with an aggregate net carrying value of \$85,578,325 at September 30, 2015.

The condensed consolidated balance sheet of the FREMF trusts at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Balance Sheets		
Assets		
Multi-family mortgage loans held in securitization trusts	\$ 1,557,938,059	1,750,294,430
Receivables	5,447,857	6,012,642
Total assets	\$ 1,563,385,916	1,756,307,072
Liabilities and Equity		
Multi-family securitized debt obligations	\$ 1,472,569,737	1,670,573,456
Payables	5,237,854	5,800,065
	\$ 1,477,807,591	1,676,373,521
Equity	85,578,325	79,933,551
Total liabilities and equity	\$ 1,563,385,916	1,756,307,072

The multi-family mortgage loans held in securitization trusts had an unpaid principal balance of \$1,442,596,906 at September 30, 2015 and \$1,637,721,473 at December 31, 2014. The multi-family securitized debt obligations had an unpaid principal balance of \$1,442,596,906 at September 30, 2015 and \$1,637,721,473 at December 31, 2014.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

The condensed consolidated statements of operations of the FREMF trusts for the three and nine months ended September 30, 2015 and at September 30, 2014 are as follows

	Three Months Ended September 30, 2015	For the period from September 16, 2014 to September 30, 2014*
Statements of Operation		
Interest income	\$ 16,794,338	2,433,318
Interest expense	15,372,832	2,239,797
Net interest income	\$ 1,421,506	193,521
General and administrative fees	(787,124	) (118,806 )
Unrealized gain (loss) on multi-family loans held in securitization trusts	1,804,190	-
Net Income	\$ 2,438,572	74,715
	Nine Months Ended September 30, 2015	For the period from September 16, 2014 to September 30, 2014*
Statements of Operation		
Interest income	\$ 51,679,542	2,433,318
Interest expense	47,286,613	2,239,797
Net interest income	\$ 4,392,929	193,521
General and administrative fees	(2,494,015	) (118,806 )
Unrealized gain (loss) on multi-family loans held in securitization trusts	5,644,774	-
Net Income	\$ 7,543,688	74,715

\*The Company consolidated the first trust in September, 2014 and the second trust in October, 2014.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 6 – THE FREMF TRUSTS (Continued)**

The geographic concentrations of credit risk exceeding 5% of the total loan balances related to the FREMF trusts as of September 30, 2015:

	September 30, 2015	
Texas	20.9	%
New York	12.6	%
California	11.6	%
Washington	6.8	%
Colorado	6.1	%

**NOTE 7 – RESIDENTIAL MORTGAGE LOAN SECURITIZATION TRUSTS**

The Company has elected the fair value option on the assets and liabilities of the CSMC 2014-OAK1 Trust and the JPMMT 2014-OAK4 Trust, which requires that changes in valuations of the trusts be reflected in the Company's statements of operations. The Company's net investment in the trusts is limited to the Non-Agency RMBS comprised of subordinated and first loss securities, IO securities and excess servicing rights acquired by the Company in 2014 with an aggregate net fair value of \$52,011,999 at September 30, 2015.

The condensed consolidated balance sheet of the residential mortgage loan securitization trusts at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Balance Sheets		
Assets		
Residential mortgage loans held in securitization trusts	\$ 443,717,026	631,446,984
Receivables	1,513,951	2,030,045
Total assets	\$ 445,230,977	633,477,029

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Liabilities and Equity			
Residential securitized debt obligations	\$ 392,065,402	502,900,040	(1)
Payables	1,153,576	1,662,660	
	\$ 393,218,978	504,562,700	
Equity	52,011,999	128,914,329	
Total liabilities and equity	\$ 445,230,977	633,477,029	

(1) Includes \$70,864,063 of residential securitized debt obligations sold but not settled as of December 31, 2014.

The residential mortgage loans held in securitization trusts had an unpaid principal balance of \$430,955,743 at September 30, 2015 and \$608,858,758 at December 31, 2014. The residential mortgage loan securitized debt obligations had an unpaid principal balance of \$430,955,743 at September 30, 2015 and \$608,858,758 at December 31, 2014.

The condensed consolidated statements of operations of the residential mortgage loan securitization trusts for the three and nine months ended September 30, 2015 and September 30, 2014 are as follows:



**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 7 – RESIDENTIAL MORTGAGE LOAN SECURITIZATION TRUSTS (continued)**

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
Statements of Operation		
Interest income	\$ 4,641,887	-
Interest expense	3,137,247	-
Net interest income	\$ 1,504,640	-
General and administrative fees	(146,574 )	-
Unrealized gain (loss) on residential loans held in securitization trusts	(1,323,697 )	-
Net Income	\$ 34,369	-
	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Statements of Operation		
Interest income	\$ 15,573,046	-
Interest expense	9,894,956	-
Net interest income	\$ 5,678,090	-
General and administrative fees	(495,094 )	-
Unrealized gain (loss) on residential loans held in securitization trusts	(7,655,902 )	-
Net Income (Loss)	\$ (2,472,906 )	-

The geographic concentrations of credit risk exceeding 5% of the total loan balances related to the residential mortgage loan securitization trusts as of September 30, 2015:

	September 30, 2015	
California	47.6	%
Washington	12.9	%
Massachusetts	5.7	%

**NOTE 8 – USE OF SPECIAL PURPOSE ENTITIES AND VARIABLE INTEREST ENTITIES**

A Special Purpose Entity (“SPE”) is an entity designed to fulfill a specific limited purpose of the company that organized it, and a SPE is frequently used for the purpose of securitizing, or re-securitizing, financial assets. They are

typically structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to certificate holders. As a consequence of their purpose and design, SPEs are typically VIEs.

As further discussed in Notes 2, 6 and 7, the Company has evaluated its investments in Multi-Family MBS and Non-Agency RMBS and has determined that they are VIEs. The Company has then undertaken an analysis of whether it is the primary beneficiary of any of these VIEs, and has determined that it is the primary beneficiary of the FREMF 2011-K13 Trust, FREMF 2012-KF01 Trust, JPMMT 2014-OAK4 Trust and CSMC 2014-OAK1 Trust. Accordingly, the Company consolidated the assets, liabilities, income and expenses of the trusts in its financial statements as of and for the period ending September 30, 2015. However, the assets of each of the trusts are restricted, and can only be used to fulfill the obligations of the respective trusts. Additionally, the obligations of each of the trusts do not have any recourse to the Company as the consolidator of the trusts.

For the Company's remaining Multi-Family and Non-Agency MBS investments that are VIEs, the Company has determined that it is not the primary beneficiary, and accordingly these investments are accounted for as further described in Notes 2, 6 and 7.

# **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

## **NOTE 9 – RESTRICTED CASH**

As of September 30, 2015, the Company is required to maintain certain cash balances with counterparties for broker activity and collateral for the Company's repurchase agreements in non-interest bearing accounts.

The following table presents the Company's restricted cash balances as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Restricted cash balance held by:		
Broker counterparties for derivatives trading	\$ 4,481,861	\$ 5,104,533
Repurchase counterparties as restricted collateral	7,062,897	6,296,112
Total	\$ 11,544,758	\$ 11,400,645

## **NOTE 10 – BORROWINGS**

With effect from January 1, 2015, ASU 2014-11 changed the basis on which the Company accounts for repurchase to maturity transactions and linked repurchase financings to be consistent with the basis on which the Company accounts for secured borrowings. Accordingly, the assets and repurchase agreements that encompass linked transactions that were previously accounted for on a net basis and recorded as a forward purchase (derivative) contract are now bifurcated, and the gross amounts are reported in available-for-sale securities and repurchase agreements separately. Consequently, the Company's GAAP financial statements as of and for the period ended September 30, 2015 are not directly comparable to prior period GAAP financials.

### **Repurchase Agreements**

The Company has entered into repurchase agreements (including three residential loan warehouse facilities to finance its portfolio of investments. The repurchase agreements bear interest at a contractually agreed rate. The repurchase obligations mature and typically reinvest every thirty days to one year and have a weighted average aggregate interest

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rate of 1.47% at September 30, 2015. Repurchase agreements are being accounted for as secured borrowings since the Company maintains effective control of the financed assets. The following table summarizes certain characteristics of the Company's repurchase agreements at September 30, 2015 and December 31, 2014:

	September 30, 2015			December 31, 2014		
	Amount outstanding	Weighted average interest rate		Amount outstanding	Weighted average interest rate	
Agency	\$ 164,056,000	0.45	%	\$ 298,783,000	0.36	%
Non-Agency <sup>(1)</sup>	134,430,000	1.72	%	200,347,000	1.25	%
Multi-Family <sup>(2)</sup>	114,856,000	2.07	%	45,484,000	1.85	%
Mortgage loans	52,998,963	2.68	%	50,263,852	2.86	%
Total	\$466,340,963	1.47	%	\$594,877,852	0.99	%

*At December 31, 2014, the Company had repurchase agreements of \$85,497,000, that were linked to Non-Agency (1)RMBS purchases and were accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the above table. (See Note 3).*

# FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

## NOTE 10 – BORROWINGS (Continued)

At September 30, 2015 and December 31, 2014, the repurchase agreements had the following remaining maturities:

	September 30, 2015	December 31, 2014
< 30 days	\$ 376,052,000	\$ 465,817,820
31 to 60 days	15,207,000	86,025,327
61 to 90 days	13,246,000	-
> 90 days	61,835,963	43,034,705
Total	\$ 466,340,963	\$ 594,877,852

Under the repurchase agreements (including residential loan warehouse facilities), the respective lender retains the right to mark the underlying collateral to fair value. A reduction in the value of pledged assets would require the Company to provide additional collateral or fund margin calls. In addition, the repurchase agreements are subject to certain financial covenants. The Company is in compliance with these covenants as of September 30, 2015.

The following tables summarize certain characteristics of the Company's repurchase agreements at September 30, 2015 and December 31, 2014:

Repurchase Agreement Counterparties	September 30, 2015		Weighted average days to maturity	Market Value of collateral held
	Amount Outstanding	Percent of total amount outstanding		
North America	\$ 259,027,000	55.54	% 15	\$ 358,864,363
Europe <sup>(1)</sup>	115,715,963	24.82	% 137	145,484,898
Asia <sup>(1)</sup>	91,598,000	19.64	% 14	101,163,370
Total	\$ 466,340,963	100.00	% 45	\$ 605,512,631

(1) Counterparties domiciled in Europe and Asia, or their U.S. subsidiaries.

December 31, 2014

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Repurchase Agreement Counterparties	Amount <b>Outstanding</b> <sup>(1)</sup>	Percent of total amount outstanding	Weighted average days to maturity	Market Value of collateral held
North America	\$388,138,820	65.25	% 19	\$ 463,615,686
Europe <sup>(2)</sup>	93,350,032	15.69	% 21	113,286,452
Asia <sup>(2)</sup>	113,389,000	19.06	% 122	118,519,817
Total	\$594,877,852	100.00	% 36	\$ 695,421,955

*(1) At December 31, 2014, the Company had repurchase agreements of \$85,497,000 and \$63,796,000 that were linked to Non-Agency RMBS and Multi-Family MBS purchases, respectively, and were accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the above table. (See Note 3).*

*(2) Counterparties domiciled in Europe and Asia, or their U.S. subsidiaries.*

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 10 – BORROWINGS (Continued)**

**Secured Loans**

As of September 30, 2015, FOI had \$51.4 million in outstanding secured advances from FHLBI and is approved for additional available uncommitted credit for borrowing of an amount up to \$500 million. The secured advances are due in three months and have floating rates based on three-month LIBOR plus a spread. For the nine months ended September 30, 2015, FOI had average borrowings of \$23.1 million with a weighted average borrowing rate of 0.36%.

The ability to borrow funds from FHLBI is subject to the Company's continued credit worthiness, pledging of sufficient eligible collateral to secure advances, and compliance with certain agreements with FHLBI. Each advance requires approval by the FHLBI and is secured by collateral in accordance with FHLBI's credit and collateral guidelines, as may be revised from time to time by the FHLBI.

As of September 30, 2015, the FHLBI advances were collateralized by RMBS with a fair value of \$54.2 million.

FHLBI retains the right to mark the underlying collateral for FHLBI advances to fair value. A reduction in the value of pledged assets would require FOI to provide additional collateral.

An additional requirement of FHLBI membership is to purchase and hold a certain amount of FHLBI stock, which is based in part, upon the outstanding principal balance of secured advances from FHLBI.

**NOTE 11 – DERIVATIVE INSTRUMENTS HEDGING AND NON-HEDGING ACTIVITIES**

With effect from January 1, 2015, ASU 2014-11 changed the basis on which we account for repurchase to maturity transactions and linked repurchase financings to be consistent with the basis on which we account for secured borrowings. Accordingly, the assets and repurchase agreements that encompass linked transactions that were previously accounted for on a net basis and recorded as a forward purchase (derivative) contract are now bifurcated, and the gross amounts are reported in available-for-sale securities and repurchase agreements separately. Consequently, the Company's GAAP financial statements as of and for the period ended September 30, 2015 are not directly comparable to prior period GAAP financials.

The Company enters into a variety of derivative instruments in connection with its risk management activities. The Company's primary objective for executing these derivatives and non-derivative instruments is to mitigate the Company's economic exposure to future events that are outside its control. The Company's derivative financial instruments are utilized principally to manage market risk and cash flow volatility associated with interest rate risk (including associated prepayment risk) related to certain assets and liabilities. As part of its risk management activities, the Company may, at times, enter into various forward contracts, including short securities, Agency to-be-announced securities, or TBAs, options, futures, swaps, swaption and caps. In executing on the Company's current risk management strategy, the Company has entered into interest rate swap, swaption agreements, TBA's and futures contracts. Amounts receivable and payable under interest rate swap agreements are accounted for as unrealized gain (loss) on derivative contracts, net in the condensed consolidated statement of operations. Premiums on swaptions are amortized on a straight line basis between trade date and expiration date and are recognized in the condensed consolidated statement of operations as a realized loss on derivative contracts. In addition, as set out in Note 3, the Company recorded Linked Transactions as a forward purchase (derivative) contract at fair value on the condensed consolidated balance sheet. Although Linked Transactions were accounted for as derivative instruments, they were not entered into as part of the Company's risk management activities and were not designated as hedging instruments.



**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 11 – DERIVATIVE INSTRUMENTS HEDGING AND NON-HEDGING ACTIVITIES (Continued)**

The following summarizes the Company's significant asset and liability derivatives, the risk exposure for these derivatives and the Company's risk management activities used to mitigate certain of these risks. While the Company uses derivative instruments to achieve the Company's risk management activities, it is possible that these instruments will not effectively mitigate all or a substantial portion of the Company's market rate risk. In addition, the Company might elect, at times, not to enter into certain hedging arrangements in order to maintain compliance with REIT requirements.

***Balance Sheet Presentation***

The following tables present the gross fair value and notional amounts of the Company's derivative financial instruments as of September 30, 2015 and December 31, 2014.

	September 30, 2015		Derivative Liabilities	
	Fair value	Notional	Fair value	Notional
Futures	-	-	(1,495,225)	4,601,000,000
Total	\$-	-	\$(1,495,225)	4,601,000,000

	December 31, 2014		Derivative Liabilities	
	Fair value	Notional	Fair value	Notional
Interest rate swaps	\$-	-	\$(1,755,107)	226,000,000
Swaptions	21,550	25,000,000	-	-
Futures	-	-	(533,951)	98,000,000
Total	\$21,550	25,000,000	\$(2,289,058)	324,000,000

As of September 30, 2015, the Company did not have any interest rate swaps outstanding. The following table presents the average fixed pay rate and average maturity for the Company's interest rate swaps (excludes interest rate swaptions) as of December 31, 2014:

	December 31, 2014		Fixed Pay Rate	Maturity Years	Forward	
	Notional Amount	Fair Value			Starting	
Current Maturity Date						
3 years or less	\$35,000,000	\$(124,591 )	0.66 %	1.1	0.0	%
Greater than 3 years and less than 5 years	191,000,000	(1,630,516)	1.66 %	3.7	0.0	%
Total	\$226,000,000	\$(1,755,107)	1.51 %	3.3	0.0	%

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 11 – DERIVATIVE INSTRUMENTS HEDGING AND NON-HEDGING ACTIVITIES (Continued)**

*Offsetting of Financial Assets and Liabilities*

The Company's repurchase agreements are governed by underlying agreements that provide for a right of setoff in the event of default of either counterparty to the agreement. The Company also has in place with its counterparties ISDA Master Agreements ("Master Agreements") for its derivative contracts. In accordance with the Master Agreements to each counterparty, if on any date amounts would otherwise be payable in the same currency and in respect of the same transaction by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount. The Company has pledged financial collateral as restricted cash to its counterparties for its derivative contracts and repurchase agreements. See Note 2 for specific details on the terms of restricted cash with counterparties and Note 9 for the amounts of restricted cash outstanding.

Under GAAP, if the Company has a valid right of setoff, it may offset the related asset and liability and report the net amount. The Company presents repurchase agreements subject to Master Agreements or similar agreements on a gross basis, and derivative assets and liabilities subject to such arrangements on a net basis, based on derivative type and counterparty, in its condensed consolidated balance sheets. Separately, the company presents cash collateral subject to such arrangements on a net basis, based on counterparty, in its condensed consolidated balance sheets. However, the Company does not offset financial assets and liabilities with the associated cash collateral on its condensed consolidated balance sheets.

The below tables provide a reconciliation of these assets and liabilities that are subject to Master Agreements or similar agreements and can be potentially offset on the Company's condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014:

September 30, 2015

Gross amounts not offset  
in the Balance Sheet <sup>(1)</sup>

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Description	Gross amounts of recognized liabilities	Gross amounts offset in the Balance Sheet	Net amounts of liabilities presented in the Balance Sheet		Cash collateral (Received)/ Pledged		Net amount
					Financial instruments		
Repurchase agreements	\$(466,340,963)	\$ -	\$(466,340,963 )	\$ -	\$ -		\$(466,340,963 )
Futures	(1,495,225 )	-	(1,495,225 )	-	1,495,225		-
FHLB advances	(51,400,000 )	-	(51,400,000 )	-	-		(51,400,000 )
Total	\$(519,236,188)	\$ -	\$(519,236,188 )	\$ -	\$ 1,495,225		\$(517,740,963 )

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 11 – DERIVATIVE INSTRUMENTS HEDGING AND NON-HEDGING ACTIVITIES (Continued)**

December 31, 2014						
Description	Net amounts			Gross amounts not offset in the Balance Sheet <sup>(1)</sup>		
	Gross amounts	Gross amounts	of assets		Cash collateral	
	of recognized assets	offset in the Balance Sheet	presented in the Balance Sheet	Financial instruments	(Received)/ Pledged	Net amount
Linked transactions <sup>(2)</sup>	\$210,402,629	\$(149,584,518)	\$60,818,111	\$(60,818,111)	\$-	\$-
Swaptions	21,550	-	21,550	-	-	21,550
Total	\$210,424,179	\$(149,584,518)	\$60,839,661	\$(60,818,111)	\$-	\$21,550

  

December 31, 2014						
Description	Net amounts			Gross amounts not offset in the Balance Sheet <sup>(1)</sup>		
	Gross amounts	Gross amounts	of liabilities		Cash collateral	
	of recognized liabilities	offset in the Balance Sheet	presented in the Balance Sheet	Financial instruments	(Received)/ Pledged	Net amount
Repurchase agreements	\$594,877,852	\$-	\$594,877,852	\$-	\$-	\$594,877,852
Linked transactions <sup>(2)</sup>	(149,584,518)	149,584,518	-	-	-	-
Interest rate swaps	(1,755,107)	-	(1,755,107)	-	1,755,107	-
Futures	(533,951)	-	(533,951)	-	533,951	-
Total	\$443,004,276	\$149,584,518	\$592,588,794	\$-	\$2,289,058	\$594,877,852

(1) Amounts presented are limited in total to the net amount of assets or liabilities presented in the condensed consolidated balance sheets by instrument. Excess cash collateral or financial assets that are pledged to counterparties may exceed the financial liabilities subject to Master Agreements or similar agreements, or counterparties may have pledged excess cash collateral to the Company that exceed the corresponding financial assets. These excess amounts are excluded from the tables above.

*(2) Non-Agency RMBS and Multi-Family MBS securities within a linked transaction serve as collateral for the linked transaction. See Note 3 “Non-Hedging Activity – Linked Transactions” for information on linked transaction arrangements.*

### ***Income Statement Presentation***

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

The following table summarizes the underlying hedged risks and the amount of gains and losses on derivative instruments reported net in the condensed consolidated statement of operations as realized gain (loss) on derivative contracts, net and unrealized gain (loss) on derivative contracts, net for the three months ended September 30, 2015 and September 30, 2014 and nine months ended September 30, 2015 and September 30, 2014:

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 11 – DERIVATIVE INSTRUMENTS HEDGING AND NON-HEDGING ACTIVITIES (Continued)**

Three Months Ended September 30, 2015			
Primary underlying risk	Amount of realized gain (loss) (1)	Amount of unrealized appreciation (depreciation) (1)	Total
Interest rate:			
Interest rate swaps	\$ (5,552,898 )	\$ 2,777,551	\$ (2,775,347 )
Futures	(2,709,525 )	(1,145,644 )	(3,855,169 )
Total	\$ (8,262,423 )	\$ 1,631,907	\$ (6,630,516 )

Three Months Ended September 30, 2014			
Primary underlying risk	Amount of realized gain (loss) (1)	Amount of unrealized appreciation (depreciation) (1)	Total
Interest rate:			
Interest rate swaps	\$ (7,637,172 )	\$ 9,200,876	\$ 1,563,704
Swaptions	(84,000 )	(44,874 )	(128,874 )
Futures	(1,248,544 )	853,740	(394,804 )
TBAs	(109,375 )	-	(109,375 )
Total	\$ (9,079,091 )	\$ 10,009,742	\$ 930,651

(1) In the three month period ended September 30, 2015, net swap interest expense totaled \$782,870 comprised of \$1,233,249 in interest expense paid (included in realized gain (loss)) and \$450,379 in accrued interest income (included in unrealized appreciation (depreciation)). In the three month period ended September 30, 2014, net swap interest expense totaled \$1,457,602 comprised of \$1,260,546 in interest expense paid (included in realized gain (loss)) and \$197,056 in accrued interest income (included in unrealized appreciation (depreciation)).

Nine Months Ended September 30, 2015			
Primary underlying risk	Amount of realized gain (loss)	Amount of unrealized appreciation (depreciation)	Total

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Interest rate:

Interest rate swaps	\$(6,974,491 )	\$ 1,681,725	\$(5,292,766 )
Swaptions	(84,000 )	62,450	(21,550 )
Futures	(5,251,810 )	(961,274	) (6,213,084 )
Total	\$(12,310,301)	\$ 782,901	\$(11,527,400)



**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 11 – DERIVATIVE INSTRUMENTS HEDGING AND NON-HEDGING ACTIVITIES (Continued)**

Nine Months Ended September 30, 2014			
	Amount of realized	Amount of unrealized	
Primary underlying risk	gain (loss)	appreciation (depreciation)	Total
Interest rate:			
Interest rate swaps	\$(8,779,313 )	\$ 163,919	\$(8,615,394 )
Swaptions	(252,000 )	(1,192,877 )	(1,444,877 )
Futures	(1,439,590 )	6,190	(1,433,400 )
TBA's	(300,781 )	(68,359 )	(369,140 )
Total	\$(10,771,684 )	\$ (1,091,127 )	\$(11,862,811 )

(1) In the nine month period ended September 30, 2015, net swap interest expense totaled \$2,216,417 comprised of \$2,654,405 in interest expense paid (included in realized gain (loss)) and \$437,988 in accrued interest income (included in unrealized appreciation (depreciation)). In the nine month period ended September, 2014, net swap interest expense totaled \$2,774,394 comprised of \$2,402,685 in interest expense paid (included in realized gain (loss)) and \$371,709 in accrued interest expense (included in unrealized appreciation (depreciation)).

**NOTE 12 - MSR's**

During the nine months ended September 30, 2015, the Company retained the servicing rights associated with an aggregate principal balance of \$538,643,377 of residential mortgage loans that the Company had previously transferred to three residential mortgage loan securitization trusts. The Company's MSR's are held and managed at the Company's TRS, and the Company employs one or more licensed sub-servicers to perform the related servicing activities. To the extent that the Company determines it is the primary beneficiary of a residential mortgage loan securitization trust into which it has sold loans, any associated MSR's are eliminated on the consolidation of the trust. The trust is contractually obligated to pay a portion of the interest payments from the associated residential mortgage loans for the direct servicing of the loans, and after deduction of sub-servicing fees payable to contracted sub-servicers, the net amount, excess servicing rights, represents a liability of the trust. Upon consolidation of the trust, the fair value of the excess servicing rights is equal to the related MSR's held at our TRS. As the result of the Company's determination that it is not the primary beneficiary of OAKS Mortgage Trust 2015-1, it does not consolidate this trust, and as a consequence, MSR's associated with this trust are recorded on the Company's condensed consolidated balance sheet at September 30, 2015.

The following table presents the Company's MSR activity as of September 30, 2015.

	September 30, 2015	
Balance at beginning of year	\$ -	
MSRs retained from sales to securitizations	1,915,317	
Balance at end of period	\$ 1,915,317	
Loans associated with MSRs <sup>(1)</sup>	\$ 236,969,263	
MSR values as percent of loans <sup>(2)</sup>	0.81	%

(1) Amounts represent the principal balance of loans associated with MSRs outstanding at September 30, 2015

(2) Amounts represent the carrying value of MSRs at September 30, 2015 divided by the outstanding balance of the loans associated with these MSRs

## **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

### **NOTE 12 – MSRs (continued)**

The following table presents the components of servicing income recorded on the Company's statement of operation for the three months ended September 30, 2015:

	Three Months Ended September 30, 2015
Servicing income, net	\$ 170,809
Income from MSRs, net	\$ 170,809

### **NOTE 13 – FINANCIAL INSTRUMENTS**

With effect from January 1, 2015, ASU 2014-11 changes the basis on which we account for repurchase to maturity transactions and linked repurchase financings to be consistent with the basis on which we account for secured borrowings. Accordingly, the assets and repurchase agreements that encompass linked transactions that were previously accounted for on a net basis and recorded as a forward purchase (derivative) contract are now bifurcated, and the gross amounts are reported in available-for-sale securities and repurchase agreements separately. Consequently, our GAAP financial statements as of and for the period ended September 30, 2015 are not directly comparable to prior period GAAP financials.

U.S. GAAP defines fair value and provides a consistent framework for measuring fair value under U.S. GAAP. ASC 820 "Fair Value Measurement" expands fair value financial statement disclosure requirements. ASC 820 does not require any new fair value measurements and only applies to accounting pronouncements that already require or permit fair value measures, except for standards that relate to share-based payments.

Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels are defined as follows:

- **Level 1 Inputs** – Quoted prices for identical instruments in active markets.

**Level 2 Inputs** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

- **Level 3 Inputs** – Instruments with primarily unobservable value drivers.

The following tables summarize the valuation of the Company's assets and liabilities at fair value within the fair value hierarchy levels as of September 30, 2015 and December 31, 2014:

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 13 – FINANCIAL INSTRUMENTS (Continued)**

	Quoted prices in active markets for identical assets	Significant other observable inputs	Unobservable inputs	Balance as of
	Level 1	Level 2	Level 3	September 30, 2015
<b>Assets:</b>				
Residential mortgage-backed securities (a)	\$ -	\$462,558,886	\$ -	\$ 462,558,886
Residential mortgage loans	-	61,999,865	-	61,999,865
Multi-Family mortgage loans held in securitization trusts	-	1,557,938,059	-	1,557,938,059
Residential mortgage loans held in securitization trusts	-	443,717,026	-	443,717,026
Mortgage servicing rights	-	-	1,915,317	1,915,317
FHLB stock	2,403,000	-	-	2,403,000
Total	\$ 2,403,000	\$2,526,213,836	\$ 1,915,317	\$ 2,530,532,153
<b>Liabilities:</b>				
Interest rate swaps	\$ -	\$ -	\$ -	\$ -
Multi-family securitized debt obligations	-	(1,472,569,737)	-	(1,472,569,737 )
Residential securitized debt obligations	-	(392,065,402 )	-	(392,065,402 )
Futures	(1,495,225 )	-	-	(1,495,225 )
Total	\$ (1,495,225 )	\$ (1,864,635,139)	\$ -	\$ (1,866,130,364 )

	Quoted prices in active markets for identical assets	Significant other observable inputs	Unobservable inputs	Balance as of
	Level 1	Level 2	Level 3	December 31, 2014
<b>Assets:</b>				
Residential mortgage-backed securities (a)	\$ -	\$368,315,738	\$ -	\$ 368,315,738
Residential mortgage loans	-	54,678,382	-	54,678,382
Multi-Family mortgage loans held in securitization trusts	-	1,750,294,430	-	1,750,294,430
	-	631,446,984	-	631,446,984

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Residential mortgage loans held in  
securitization trusts

Mortgage servicing rights

Linked transactions (b)

Swaptions

Total

Liabilities:

Interest rate swaps

Multi-family securitized debt obligations

Residential securitized debt obligations

Futures

Total

(a) For more detail about the fair value of the Company's MBS, see Note 3 and Note 4.

During the nine months ended September 30, 2015 and year ended December 31, 2014, the Company did not have any transfers between any of the levels of the fair value hierarchy. Transfers between levels are deemed to take place on the last day of the reporting period in which the transfer takes place.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 13 – FINANCIAL INSTRUMENTS (Continued)**

As of September 30, 2015, the Company had \$1,915,317 in Level 3 assets.

The following table provides quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's MSR's classified as Level 3 fair value assets at September 30, 2015:

As of September 30, 2015

Valuation Technique	Unobservable Input	Range	Weighted Average	
Discounted cash flow	Constant prepayment rate	7.4 - 24.8%	15.3	%
	Discount rate	12.0%	12.0	%

**NOTE 14 – RELATED PARTY TRANSACTIONS**

***Management Fee***

The Company is externally managed and advised by the Manager. Pursuant to the terms of the management agreement, the Company pays the Manager a management fee equal to 1.5% per annum, calculated and payable monthly in arrears. For purposes of calculating the management fee, the Company's stockholders' equity means the sum of the net proceeds from all issuances of the Company's equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus the Company's retained earnings at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less any amount that the Company pays for repurchases of the Company's common stock since inception, and excluding any unrealized gains, losses or other items that do not affect realized net income (regardless of whether such items are included in other comprehensive income or loss, or in net income). This amount will be adjusted to exclude one-time events pursuant to changes in GAAP and certain non-cash items after discussions between the Manager and the Company's independent directors and approval by a majority of the Company's independent directors. To the extent asset impairment reduces the Company's retained earnings at the end of any completed calendar quarter, it will reduce the management fee for such quarter. The Company's stockholders' equity for the purposes of calculating the management fee could be greater than the amount of

shareholders' equity shown on the financial statements. The initial term of the management agreement expires on May 16, 2014, with automatic, one-year renewals at the end of the initial term and each year thereafter.

For the three months ended September 30, 2015, the Company incurred management fees of \$703,167, included in Management Fee in the condensed consolidated statement of operations, of which \$470,000 was accrued but had not been paid, included in fees and expenses payable to Manager in the condensed consolidated balance sheets.

For the nine months ended September 30, 2015, the Company incurred management fees of \$2,119,571, included in Management Fee in the condensed consolidated statement of operations, of which \$470,000 was accrued but had not been paid, included in fees and expenses to Manager in the condensed consolidated balance sheets.

### ***Expense Reimbursement***

Pursuant to the management agreement, the Company is required to reimburse the Manager for operating expenses related to the Company incurred by the Manager, including accounting services, auditing and tax services, technology and office facilities, operations, compliance, legal and filing fees, and miscellaneous general and administrative costs, including the cost of non-investment management personnel of the Manager who spend all or a portion of their time managing the Company's affairs.



## **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

For the three months ended September 30, 2015, the Company incurred reimbursable expenses of \$1,338,272, included in operating expenses reimbursable to Manager in the condensed consolidated statement of operations, of which \$450,000 was accrued but had not yet been paid, included in fees and expenses payable to Manager in the condensed consolidated balance sheets.

For the nine months ended September 30, 2015, the Company incurred reimbursable expenses of \$3,444,914, included in operating expenses reimbursable to Manager in the condensed consolidated statement of operations, of which \$450,000 was accrued but had not yet been paid, included in fees and expenses payable to Manager in the condensed consolidated balance sheets.

### ***Fulfillment and Securitization Fees***

During the nine months ended September 30, 2015, the Company's Manager accrued fees pursuant to Section 8(b) of the management agreement in addition to the Management Fee for services rendered in connection with FOAC's aggregation of loans and subsequent contribution of these and certain other loans into the OAKS 2015-1 Trust. The invoice for such fees was paid pursuant to guidelines adopted by the Company's Audit Committee pursuant to the Company's related party transaction policies. Fees accrued during the period totaled \$175,000, of which all was paid during the period.

### ***Manager Equity Plan***

The Company has adopted a Manager Equity Plan under which the Company may compensate the Manager and the Company's independent directors or consultants, or officers whom it may employ in the future. In turn, the Manager, in its sole discretion, grants such awards to its directors, officers, employees or consultants. The Company will be able to issue under the Manager Equity Plan up to 3.0% of the total number of issued and outstanding shares of common stock (on a fully diluted basis) at the time of each award.

Stock based compensation arrangements may include incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock awards and other awards based on the Company's common stock.

Under the Manager Equity Plan, the Company's independent directors, as part of their compensation for serving as independent directors, are eligible to receive 1,500 shares of restricted stock annually after the Company's Annual General Meeting vesting in full one year later. As of the closing of the Company's initial public offering (the "IPO"), the Company's board of directors granted to each of the then three independent directors 1,500 shares of restricted common stock (4,500 shares in total), each of which vested in full on the first anniversary of the grant date. The grant date fair value of these restricted shares was \$65,250 based on the closing price of the Company's common stock on March 27, 2013 of \$14.50. On March 27, 2014, the 4,500 shares of restricted stock granted to the independent directors fully vested. On August 19, 2014 the Company's board of directors granted each of the then three independent directors 1,500 shares of restricted common stock (4,500 shares in total), each of which vested in full one year after the Company's 2014 Annual General Meeting. The grant date fair value of these restricted shares was \$50,715 based on the closing price of the Company's common stock on August 19, 2014 of \$11.27. On May 22, 2015, the Company's board of directors granted each of the four independent directors 1,500 shares of restricted common stock (6,000 shares in total), each of which vest in full one year after the Company's 2015 Annual General Meeting. The grant date fair value of these restricted shares was \$60,420 based on the closing price of the Company's common stock on May 22, 2015 of \$10.07.

## **FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

### **NOTE 14 – RELATED PARTY TRANSACTIONS (Continued)**

As of the closing of the IPO on March 27, 2013, the Company's board of directors granted the Manager 28,500 shares of restricted common stock. One-third of these restricted common stock shares vest on each of the first, second and third anniversaries of the grant date. The fair value of these restricted shares was \$60,040 based on the closing price of the Company's common stock on September 30, 2015 of \$6.32. The Company accounts for the restricted common stock shares based on their aggregate fair value at the measurement dates and as this value subsequently changes, a cumulative adjustment is made in the current period for prior compensation cost expenses recorded to date. On March 27, 2015, 9,500 shares of restricted stock granted to the Manager fully vested for net proceeds of \$67,199.

For the three and nine months ended September 30, 2015, the Company recognized compensation expense related to restricted common stock of \$5,735 and \$50,535 respectively, included in compensation expense in the condensed consolidated statement of operations. The Company has unrecognized compensation expense of \$68,589 as of September 30, 2015 for unvested shares of restricted common stock. As of September 30, 2015, the weighted average period for which the unrecognized compensation expense will be recognized is 7.3 months.

### **NOTE 15 – STOCKHOLDERS' EQUITY**

#### ***Ownership and Warrants***

As a result of the May 2012 and March 2013 private offerings of common stock to XL Investments Ltd, an indirectly wholly owned subsidiary of XL Group plc, owns a significant minority investment in the Company. Pursuant to the terms of the May 2012 private offering, the Company agreed to issue to XL Investments Ltd warrants to purchase the Company's common stock. The warrants were subsequently issued, effective as of September 29, 2012, and entitle XL Investments Ltd, commencing on July 25, 2013 (120 days following the closing of our IPO) to purchase an aggregate of 3,125,000 shares of our common stock at a per share exercise price equal to 105% of the \$15.00 IPO price, or \$15.75. XL Global, Inc., a subsidiary of XL Group plc, holds a minority stake in the Manager.

#### ***Common Stock***

The Company has 450,000,000 authorized shares of common stock, par value \$0.01 per share, with 14,724,750 and 14,718,750 shares issued and outstanding as of September 30, 2015 and December 31, 2014 respectively.

On February 19, 2014, the Company issued 3,000,000 shares of common stock for \$11.30 per share. Net proceeds to the Company were \$31,927,377.

The Company granted the underwriters the right to purchase up to an additional 450,000 shares of common stock from the Company at the offering price of \$11.30 per share within 30 days after the issuance date of the common stock. The underwriters exercised their right and purchased 300,000 shares of common stock at the offering price of \$11.30 per share on March 7, 2014, resulting in additional net proceeds of \$3,214,325.

On June 19, 2014, the Company issued 3,500,000 shares of common stock for \$11.00 per share. Net proceeds to the Company were \$38,442,925.

The Company granted the underwriters the right to purchase up to an additional 525,000 shares of common stock from the Company at the offering price of \$11.00 per share within 30 days after the issuance date of the common stock. The underwriters exercised their right and purchased 525,000 shares of common stock at the offering price of \$11.00 per share on July 14, 2014, resulting in additional net proceeds of \$5,769,750.

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 15 – STOCKHOLDERS’ EQUITY (Continued)**

***Preferred Stock***

The Company has 50,000,000 authorized shares of preferred stock, par value \$0.01 per share, with 1,610,000 shares of 8.75% Series A Cumulative Redeemable Preferred Stock (“Series A Preferred Stock”), par value of \$0.01 per share and liquidation preference of \$25.00 per share, issued and outstanding as of both September 30, 2015 and December 31, 2014. The Series A Preferred Stock is entitled to receive a dividend rate of 8.75% per year on the \$25 liquidation preference and is senior to the common stock with respect to distributions upon liquidation, dissolution or winding up. The Company declares quarterly and pays monthly dividends on the shares of the Series A Preferred Stock, in arrears, on the 27<sup>th</sup> day of each month to holders of record at the close of business on the 15<sup>th</sup> day of each month.

The Company in connection with a December 2013 public offering of the Series A Preferred Stock granted the underwriters the right to purchase up to an additional 120,000 shares of Series A Preferred Stock from the Company at the offering price of \$25.00 per share within 30 days after the issuance date of Series A Preferred Stock. The underwriters fully exercised their right and purchased 120,000 shares of Series A Preferred Stock at \$25.00 per share on January 24, 2014, resulting in additional net proceeds of \$2,778,201.

On May 27, 2014, the Company closed an offering of 690,000 additional shares of Series A Preferred Stock, including the concurrent exercise of the underwriters’ overallotment option. The net proceeds to the Company from this issuance were \$16,325,373.

***Deferred Offering Costs***

Pursuant to the April 25, 2014 S-3 registration statement, the Company has incurred \$1,313,200 in deferred offering expenses. These expenses are being amortized on a straight-line basis over the three year period that the statement is valid. To date the Company has amortized \$532,346 in deferred offering cost, of which \$344,889 was expensed during the nine month period, resulting in a balance of \$780,854.

***Distributions to stockholders***

For the 2015 taxable year, the Company has declared dividends to common stockholders totaling \$15,457,238 or \$1.05 per share. The following table presents cash dividends declared and paid by the Company on its common stock for the nine months ended September 30, 2015:

Declaration Date	Record Date	Payment Date	Dividend Amount	Cash Dividend Per Share
December 16, 2014	January 15, 2015	January 29, 2015	\$ 1,839,844	\$ 0.12500
December 16, 2014	February 17, 2015	February 26, 2015	\$ 1,839,844	\$ 0.12500
December 16, 2014	March 16, 2015	March 30, 2015	\$ 1,839,844	\$ 0.12500
March 17, 2015	April 15, 2015	April 27, 2015	\$ 1,839,844	\$ 0.12500
March 17, 2015	May 15, 2015	May 27, 2015	\$ 1,839,844	\$ 0.12500
March 17, 2015	June 15, 2015	June 29, 2015	\$ 1,840,594	\$ 0.12500
June 15, 2015	July 15, 2015	July 30, 2015	\$ 1,472,475	\$ 0.10000
June 15, 2015	August 14, 2015	August 28, 2015	\$ 1,472,475	\$ 0.10000
June 15, 2015	September 15, 2015	September 29, 2015	\$ 1,472,475	\$ 0.10000

**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (unaudited)

**NOTE 15 – STOCKHOLDERS’ EQUITY (Continued)**

The following table presents cash dividends declared by the Company on its Series A Preferred Stock for the nine months ended September 30, 2015:

Declaration Date	Record Date	Payment Date	Dividend Amount	Cash Dividend Per Share
December 16, 2014	January 15, 2015	January 29, 2015	\$ 293,503	\$ 0.18230
December 16, 2014	February 17, 2015	February 26, 2015	\$ 293,503	\$ 0.18230
December 16, 2014	March 16, 2015	March 30, 2015	\$ 293,503	\$ 0.18230
March 17, 2015	April 15, 2015	April 27, 2015	\$ 293,503	\$ 0.18230
March 17, 2015	May 15, 2015	May 27, 2015	\$ 293,503	\$ 0.18230
March 17, 2015	June 15, 2015	June 29, 2015	\$ 293,503	\$ 0.18230
June 15, 2015	July 15, 2015	July 27, 2015	\$ 293,503	\$ 0.18230
June 15, 2015	August 14, 2015	August 27, 2015	\$ 293,503	\$ 0.18230
June 15, 2015	September 15, 2015	September 28, 2015	\$ 293,503	\$ 0.18230

***Dividend Reinvestment and Direct Stock Purchase Plan***

On May 11, 2015, the Company sponsored a dividend reinvestment and direct stock purchase plan through which stockholders may purchase additional shares of the Company’s common stock by reinvesting some or all of the cash dividends received on shares of the Company’s common stock. Stockholders may also make optional cash purchases of shares of the Company’s common stock subject to certain limitation detailed in the plan prospectus. An aggregate of 2.5 million shares of the Company’s common stock were reserved for issuance under the plan. Since implementation, all reinvestments and new share purchases have been, and are expected to continue being, covered in open market purchases rather than issuance of new shares.

**NOTE 16 – EARNINGS PER SHARE**

In accordance with ASC 260, outstanding instruments that contain rights to non-forfeitable dividends are considered participating securities. The Company is required to apply the two-class method or the treasury stock method of computing basic and diluted earnings per share when there are participating securities outstanding. The Company has

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determined that outstanding unvested restricted shares issued under the Manager Equity Plan are participating securities, and they are therefore included in the computation of basic and diluted earnings per share. The following tables provide additional disclosure regarding the computation for the three months ended September 30, 2015 and September 30, 2014 and nine months ended September 30, 2015 and September 30, 2014:

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
Net income (loss)		\$ (1,305,037 )		\$ 5,034,027
Less dividends paid:				
Common stock	\$ 4,417,425		\$ 5,518,406	
Unvested share-based payment awards	880,509		880,509	
		5,297,934		6,398,915
Undistributed earnings (deficit)		\$ (6,602,971 )		\$ (1,364,888 )
	Unvested Share-Based Payment Awards		Unvested Share-Based Payment Awards	
	Common Stock		Common Stock	
Distributed earnings	\$ 0.30	\$ 0.30	\$ 0.37	\$ 0.37
Undistributed earnings (deficit)	(0.45 )	(0.45 )	(0.09 )	(0.09 )
Total	\$ (0.15 )	\$ (0.15 )	\$ 0.28	\$ 0.28



**FIVE OAKS INVESTMENT CORP. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**

September 30, 2015 (unaudited)

**NOTE 16 – EARNINGS PER SHARE (Continued)**

	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Net income (loss)		\$ (2,402,042 )		\$ 6,917,362
Less dividends paid:				
Common stock	\$ 15,457,238		\$ 12,710,344	
Unvested share-based payment awards	2,631,744		1,997,004	
		18,088,982		14,707,348
Undistributed earnings (deficit)		\$ (20,491,024 )		\$ (7,789,986 )
	Unvested Share-Based Payment Awards	Common Stock	Unvested Share-Based Payment Awards	Common Stock
Distributed earnings	\$ 1.05	\$ 1.05	\$ 1.10	\$ 1.10
Undistributed earnings (deficit)	(1.39 )	(1.39 )	(0.67 )	(0.67 )
Total	\$ (0.34 )	\$ (0.34 )	\$ 0.43	\$ 0.43

No adjustment was required for the calculation of diluted earnings per share for the warrants described in Note 15 because the warrants' exercise price is greater than the average market price of the common shares for the period, and thereby anti-dilutive.

**NOTE 17 – SEGMENT REPORTING**

The Company invests in a portfolio comprised of mortgage-backed securities, residential mortgage loans, and other mortgage-related investments, and operates as a single reporting segment.

**NOTE 18 – INCOME TAXES**

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Certain activities of the Company are conducted through a TRS, FOAC, and FOAC therefore are subject to tax as a corporation. Pursuant to ASC 740, deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realized. The tax loss for December 31, 2014 was (\$4,006,540) and the book income through September 30, 2015 was \$895,233. Due to the start-up nature of the FOAC business, future income or loss is difficult to project. This is negative evidence that supports the need for a valuation allowance against the Company's net deferred tax assets.

As of September 30, 2015, Management is not aware of any uncertain tax positions.

The following table summarized the Company's deferred tax assets and valuation allowance as of September 30, 2015

	As of September 30, 2015		As of December 31, 2014
Non-current Deferred Tax Asset (Liability)			
Unrealized Gain (Security)	(787,614	)	(1,393,014 )
Net Operating Losses	1,029,237		1,545,254
AMT Credit	5,992		-
	247,615		152,240
Valuation Allowance	(247,615	)	(152,240 )
Net Non-current Deferred Tax Asset (Liability)	-		-

### NOTE 19 – SUBSEQUENT EVENT

On November 5, 2015, the Company priced OAKS Mortgage Trust 2015-2, representing the Company's second proprietary securitization of prime jumbo mortgage loans. The transaction is scheduled to settle on November 10, 2015.

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

*In this quarterly report on Form 10-Q, or this "report", we refer to Five Oaks Investment Corp. as "we," "us," or "our," unless we specifically state otherwise or the context indicates otherwise. We refer to our external manager, Oak Circle Capital Partners LLC, as our "Manager" or "Oak Circle".*

*The following discussion should be read in conjunction with our consolidated financial statements and the accompanying notes to our financial statements which are included in Item 1 of this report, as well as the information contained in our Annual Report on Form 10-K for the year ended December 31, 2014, or our 2014 Annual Report, filed with the Securities and Exchange Commission, or SEC, on March 16, 2015.*

### **Forward-Looking Statements**

We make forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. You can identify forward-looking statements by use of words such as "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions or other common terms, or by discussions of strategy, plans or intentions. Statements regarding the following subjects, among others, may be forward-looking: the return on equity; the yield on investments; the ability to borrow to finance assets; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. Actual results may differ from expectations, estimates and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. Additional information concerning these and other risk factors are contained in our 2014 Annual Report which is available on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

All subsequent written and oral forward-looking statements that we make, or that are attributable to us, are expressly qualified in their entirety by this cautionary notice. Any forward-looking statement speaks only as of the date on which it is made. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Overview**

We are a Maryland corporation that, with its subsidiaries, is focused on investing on a leveraged basis in mortgage and other real estate-related assets, particularly residential mortgage loans and mortgage-backed securities, or MBS. We continue to implement our strategy of transitioning to an operating company focused on credit while maintaining a relative value investment approach across the whole residential mortgage market.

Our objective is to provide attractive cash flow returns over time to our investors, and to generate income through our mortgage loan acquisition and securitization business. To achieve these objectives, we currently invest in the following assets:

- Residential mortgage loans and other mortgage-related investments, including mortgage servicing rights, or MSRs;
- Non-Agency RMBS, which are RMBS that are not issued or guaranteed by a U.S. Government-sponsored entity;
- Securitizations backed by multi-family mortgage loans, or Multi-Family MBS; and

Agency RMBS, which are residential mortgage-backed securities, for which a U.S. Government agency such as Ginnie Mae or a federally chartered corporation such as Fannie Mae or Freddie Mac, guarantees payments of principal and interest on the securities.

Since completing our IPO in March 2013, we have reduced our portfolio allocation to fixed-rate Agency RMBS from approximately 96% to 2%.

We finance our current investments in residential mortgage loans, Non-Agency RMBS, Multi-Family MBS and Agency RMBS primarily through short-term borrowings structured as repurchase agreements. Additionally, on February 24, 2015, our insurance subsidiary FOI became a member of the FHLB. FOI has negotiated agreements for advances with FHLB and, although no assurance can be given, FOI anticipates deriving significant benefits from this historically stable source of funding.

Our primary sources of income are net interest income from our investment portfolio and non-interest income from our mortgage loan-related activities. Net interest income represents the interest income we earn on investments less the expenses of funding and hedging these investments. Income from our aggregation and securitization activities represents the profit we seek to generate from the acquisition of loans and their subsequent sale or securitization.

We are externally managed and advised by Oak Circle pursuant to a management agreement between us and Oak Circle. Oak Circle, which was formed for the purpose of becoming our Manager, manages us exclusively and, unless and until Oak Circle agrees to manage any additional investment vehicle, it will not have to allocate investment opportunities in our target assets with any other REIT, investment pool or other entity. As our Manager, Oak Circle implements our business strategy, performs investment advisory services and activities with respect to our assets and is responsible for performing all of our day-to-day operations. Oak Circle is an investment adviser registered with the SEC.

We have elected to be taxed as a REIT and comply with the provisions of the Internal Revenue Code with respect thereto. Accordingly, we are generally not subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders so long as we maintain our qualification as a REIT. Our continued qualification as a REIT depends on our ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code relating to, among other things, the source of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our capital stock. Even if we maintain our qualification as a REIT, we expect to be subject to some federal, state and local taxes on our income generated in our wholly owned taxable REIT subsidiary, Five Oaks Acquisition Corp., or FOAC. We generally anticipate the retention of profits generated and taxed at FOAC.

### **Third Quarter 2015 and Subsequent Events Summary**

We reported an economic loss on common equity of 1.4%, or 5.6% annualized, comprised of a \$0.45 decrease in net book value per share that more than offset a \$0.30 dividend per common share. This loss is largely attributable to volatile interest rate markets, which in turn generated net realized losses on our interest rate derivative instruments.

Reflecting our concern with market volatility in general, and credit market conditions in particular, we reduced our MBS investment portfolio by 13.3% during the quarter, primarily through sales of Non-Agency RMBS.

Based on our cautious market views, we have continued to reduce our Non-Agency RMBS exposure to approximately \$138 million at October 31, 2015, and to reinvest capital into Agency hybrid ARMS, increasing our Agency MBS assets to approximately \$386 million at October 31, 2015.

We have priced and expect to close this week our second proprietary shelf securitization of prime jumbo loans, creating an investment package of B-notes and interest only securities for our REIT. We also anticipate creating and retaining all of the excess servicing rights in our taxable REIT subsidiary.

We continue to work with FHLBI to fund our acquisition of prime jumbo mortgage loans.

### **FOAC and Our Residential Mortgage Loan Business**

In June 2013, we established FOAC as a Taxable REIT Subsidiary, or TRS, to increase the range of our investments in mortgage-related assets. FOAC had \$375 million of warehouse financing available to it as of September 30, 2015. FOAC has obtained authorizations from all but one of the 32 states that currently impose restrictions on buying, selling or owning residential mortgage loans, or owning the servicing rights with respect to residential mortgage loans.

FOAC does not originate loans and does not participate in the credit or underwriting decisions prior to loan origination, but acquires them, and the MSRs with respect to such loans, after origination for subsequent sale or securitization. FOAC aggregates mortgage loans primarily for sale into securitization transactions, with the expectation that we will purchase the subordinated tranches issued by the related securitization trusts, and that these will represent high quality credit investments for our portfolio. Residential mortgage loans for which FOAC owns the MSRs are directly serviced by one or more licensed sub-servicers since FOAC does not directly service any residential mortgage loans.

To the extent that we have purchased the subordinated tranches of a specific trust, and determine that we are the primary beneficiary of that trust, we consolidate all of the assets, liabilities, income and expenses of the trust in our consolidated financial statements. As a result, for GAAP purposes, our financial statements reflect this “gross-up” effect. However, the assets of each trust are restricted and can only be used to fulfill the obligations of the respective trust. Accordingly, these obligations do not have any recourse to us as the consolidator of the trust. We are only exposed to the risk of loss on our net investment in the respective trust, and the income generated thereon. As of September 30, 2015, we had consolidated residential mortgage loans with a fair value of \$443.7 million, and a net investment amount in residential mortgage loan trusts of \$52.0 million. For additional information as to how our residential mortgage loan business is reflected in our condensed consolidated financial statements, see Notes 2, 5, 7 and 12 thereof. Commencing with our first securitization on our proprietary platform in 2015, we structure the trust so that we are not the primary beneficiary, and accordingly do not consolidate the trusts.

As FOAC continues to make progress on its strategic initiatives, we expect FOAC to generate taxable income from its residential mortgage loans business. This taxable income will be subject to regular corporate income taxes. We generally anticipate the retention of profits generated and taxed at FOAC.

### **Five Oaks Insurance**

On April 30, 2014, we established FOI, as a wholly owned subsidiary, which was awarded a captive insurance license by the Michigan Insurance Commission on June 12, 2014. On February 24, 2015, FOI became a member of the FHLBI. As of September 30, 2015, we had \$51.4 million of FHLB advances secured by our securities. While discussions with the FHLBI continue, we have not obtained approval to fund our acquisition of prime jumbo loans and there can be no assurance that we will receive such approval or, if we do, when such approval may be obtained. We anticipate deriving significant benefits from this historically stable source of funding, although, again, no assurance can be given.



## Multi-Family and Residential Mortgage Loan Consolidation Reporting Requirements

As of September 30, 2015, we are the primary beneficiary of two Multi-Family MBS securitization trusts, the FREMF 2011-K13 Trust, and the FREMF 2012-KF01 Trust and two prime jumbo residential mortgage securitization trusts, JPMMT 2014-OAK4 and CSMC 2014-OAK1, based in each case on our ownership of all or substantially all of the most subordinated, or first-loss, tranches in each transaction as well as the related control rights.

We have elected the fair value option on the assets and liabilities held within each of the four trusts. We have also adopted (see Note 2 to our Notes to our Condensed Consolidated Financial Statements at and for the period ended September 30, 2015 ASU 2014-13, pursuant to which we are required to determine whether the fair value of the financial assets or the fair value of the financial liabilities of each trust is more observable, but in either case, the methodology results in the fair value of the assets of each trust being equal to the fair value of the respective trust's liabilities

Securitization trusts are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. Although our consolidated balance sheet at September 30, 2015 includes the gross assets and liabilities of the four trusts, the assets of each trust are restricted and can only be used to fulfill the obligations of the individual entity. Additionally, the obligations of the trusts do not have any recourse to us as the consolidator of the trusts. Accordingly, we are only exposed to the risk of loss on our net investment in the trusts. .

We do not have any claims to the assets (other than the security represented by our first loss piece) or obligations for the liabilities of any of the trusts. Our maximum exposure to loss from our consolidation is our carrying value of \$ 137.6 million as of September 30, 2015 which represents our net aggregate investment in the trusts as set out below. As a result, for the purpose of describing our investment activities, we may present them on a net investment basis.

As of September 30, 2015, we had \$2,580,602,627 of total assets on a GAAP basis, as compared to \$2,922,209,557 as of December 31, 2014. A reconciliation of our net investment in the four consolidated trusts with our financial statements as of September 30, 2015 follows:

Multi-family mortgage loans held in securitization trusts, at fair value	\$1,563,385,916
Multi-family securitized debt obligations	\$1,477,807,591
Net investment amount of Multi-Family MBS held by us	\$85,578,325
Residential mortgage loans held in securitization trusts, at fair value	\$445,230,977
Residential securitized debt obligations	\$393,218,978



Net investment amount of residential mortgage loan trusts held by us \$52,011,999

## Factors Impacting Our Operating Results

The results of our operations are and will continue to be affected by a number of factors and primarily depend on, among other things, the level of our net interest income, the market value of our assets and the supply of, and demand for, our target assets in the marketplace. Our net interest income, which reflects the amortization of purchase premiums and accretion of purchase discounts, will vary primarily as a result of changes in market interest rates and prepayment speeds, as measured by the constant prepayment rate, or CPR, on our MBS and mortgage loans. Interest rates vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. Our operating results are also impacted by unanticipated credit events experienced by borrowers whose mortgage loans are included in our MBS, or whose loans we own directly. Our operating results will also be affected by general U.S. residential real estate fundamentals and the overall U.S. economic environment. In particular, our strategy is influenced by the specific characteristics of the residential real estate markets, including prepayment rates, credit and interest rate levels.

*Market conditions.* Due to the significant repricing of real estate assets after the 2007-2008 financial crisis and the continuing uncertainty in the direction of the real estate markets, we believe an ongoing shortage of debt and equity capital available for investing in real estate has been created as many financial institutions, insurance companies, finance companies and fund managers have determined to reduce or discontinue investment in debt or equity related to real estate. Although housing prices in many markets have since recovered, there remain opportunities for us to capitalize on market dislocations and the increasing need for private capital in the U.S. mortgage market.

The Federal Reserve officially announced the final reduction in its Quantitative Easing or QE, asset purchases at its October 2014 meeting; however, even with the end of QE, it appears the Federal Reserve will continue to reinvest in mortgage-backed security principal repayments for the foreseeable future. The Fed has continued to reaffirm, most recently on October 28, 2015, its view that the current 0 to ¼ percent target range for the federal funds rate remained appropriate, but signaled that it would begin to remove policy accommodation as early as the next meeting in December 2015 by increasing this range based upon its ongoing assessment of economic and financial conditions. The timing of the expected increase in short-term rates remains data dependent. Any resultant flattening in the yield curve could result in increased prepayment rates due to lower long-term interest rates and a narrowing of our net interest margin, which could adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders. We expect that market conditions will continue to impact our operating results and will cause us to continue adjusting our investment and financing strategies over time as new opportunities emerge and risk profiles of our business change.

*Changes in market interest rates.* With respect to our business operations, increases in interest rates, in general, may over time cause: (1) the value of our MBS and loan portfolio to decline; (2) coupons on our adjustable-rate and hybrid RMBS to reset, although on a delayed basis, to higher interest rates; (3) prepayments on our MBS and loan portfolio to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts; (4) the interest expense associated with our borrowings to increase; and (5) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to increase. Conversely, decreases in interest rates, in general, may over time cause: (1) prepayments on our MBS and loan portfolio to increase, thereby accelerating the amortization of our purchase premiums and the accretion of our purchase discounts; (2) the value of our MBS and loan portfolio to increase; (3) coupons on our adjustable-rate and hybrid RMBS to reset, although on a delayed basis, to lower interest rates; (4) the interest expense associated with our borrowings to decrease; and (5) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease.

*Prepayment speeds.* Prepayment speeds, as reflected by the CPR, vary according to interest rates, the type of residential mortgage loan, conditions in financial markets and housing markets, availability of residential mortgages, borrowers' credit profiles, competition and other factors, none of which can be predicted with any certainty. CPR, expressed as a percentage over a pool of residential mortgages, is the rate at which principal is expected to prepay in the given year (usually the next one). For example, if a certain residential mortgage loan pool has a CPR of 9%, then 9% of the existing pool principal outstanding is expected to prepay over the next year. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their residential mortgage loans, and as a result, prepayment speeds tend to decrease. When interest rates fall, however, prepayment speeds tend to increase. When house price appreciation is positive, prepayment rates may increase, and when house prices depreciate in value, prepayment rates may decline. For RMBS and loans purchased at a premium, as prepayment speeds increase, the amount of income we will earn on these investments will be less than expected because the purchase premium we will pay for the bonds amortizes faster than expected. Conversely, decreases in prepayment speeds result in income greater than expected and can extend the period over which we amortize the purchase premium. For RMBS and loans purchased at a discount, as prepayment speeds increase, the amount of income we will earn will be greater than expected because of the acceleration of the accretion of the discount into interest income. Conversely, decreases in prepayment speeds result in income less than expected and can extend the period over which we accrete the purchase discount into interest income. Generally, our Multi-Family MBS investments are not subject to prepayment risk, because scheduled repayments on the underlying multi-family mortgage loans are allocated to the most senior security in each transaction, and unscheduled repayments are held in the trust until the maturity date of the MBS securities. As a result, our Multi-Family MBS investments are generally scheduled to be repaid in full on a bullet maturity date.

*Changes in market value of our assets.* Other than our residential mortgage loans, as discussed below, it is our business strategy to hold our target assets as long-term investments. As such, we expect that our investment securities will be carried at their fair value, as available-for-sale, or AFS, when applicable, in accordance with ASC 320-10 "Investments-Debt and Equity Securities," with changes in fair value recorded through accumulated other comprehensive income/(loss), a component of stockholders' equity, rather than through earnings. As a result, we do not expect that changes in the market value of these assets will normally impact our operating results. However, at least on a quarterly basis, we monitor our target assets for other-than-temporary impairment, which could result in our recognizing a charge through earnings. See "-Critical Accounting Policies" for further details. The primary exception to this accounting policy relates to residential mortgage loans, which we intend to sell, either into a securitization

transaction, or into the secondary market. Accordingly, we have elected the fair value option for mortgage loan assets, and as such, changes in the market value of these assets will directly impact our earnings. In addition, to the extent that as a result of our purchase of subordinated securities issued by Multi-Family MBS and residential mortgage loan securitization trusts, we have determined that we are the primary beneficiary of these trusts and accordingly consolidate their assets and liabilities. We have elected the fair value option in respect of these trusts, and as such, changes in the market values of the consolidated trusts will also directly impact our earnings.

*Credit risk.* We are subject to varying degrees of credit risk in connection with our Non-Agency RMBS, Multi-Family MBS investments and residential mortgage loans. Our Manager seeks to mitigate this credit risk by estimating expected losses on these assets and either (i) purchasing such assets at appropriate discounted prices, e.g. for Non-Agency RMBS; or (ii) reviewing credit risk on a loan-by-loan basis and rejecting individual loans when deemed appropriate. Nevertheless, unanticipated credit losses could occur, which could adversely impact our operating results.

*Governmental actions.* Since 2008, when both Fannie Mae and Freddie Mac were placed under the conservatorship of the U.S. government, there have been a number of proposals to reform the U.S. housing finance system in general, and Fannie Mae and Freddie Mac in particular. GSE reform efforts appeared to lose momentum in the latter half of 2014, with the Johnson-Crapo Bill failing to secure enough support to be brought to a vote in the Senate. It remains unclear whether any proposal including current H.R. 1491 (“The Partnership to Strengthen Homeownership Act”), will become law or, should such proposal become law, how it would impact housing finance, and what impact, if any, it would have on mortgage REITs.

In August 2014, the Federal Housing Finance Agency issued a request for comment on a proposal to establish a “Single Security” for Agency RMBS, with the intention of leveraging the GSEs’ existing security structures and attempting to combine the best features of both Fannie Mae and Freddie Mac MBS to simplify and standardize structures, terms and disclosures for investors. When issuing the request for comment, the FHFA indicated that it viewed this initiative as a multi-year effort, and as such did not have a date by which the Single Security would be implemented. In May 2015, Senate Banking Committee Chairman Richard Shelby (R-AL) released a draft bill entitled *The Regulatory Relief Bill of 2015* (the “Regulatory Relief Bill”). If enacted, this bill would reduce the threshold for a financial institution to be deemed a Systemically Important Financial Institution (“SIFI”), provide regulatory relief for community banks, broaden the Consumer Financial Protection Bureau Qualified Mortgage rule, and compel the FHFA to remove its proposed rulemaking on FHLB membership qualification. The FHFA rule would reduce the number of financial institutions that could be members of the FHLB system. Furthermore, any new FHLB membership qualification rules imposed by the FHFA would have to be reviewed by the Government Accounting Office to determine whether such rules would damage the functioning of the FHLB system and its large number of member banks. We expect debate and discussion on residential housing and mortgage reform to continue through the balance of 2015, and consequently uncertainty remains, including whether the Regulatory Relief Bill will emerge from committee, or be approved by Congress, and if so what the effect will be on our FHLB-member subsidiary, Five Oaks Insurance LLC.

For a discussion of additional risks relating to our business see “Risk Factors” in our 2014 Annual Report.

## Investment Portfolio

With effect from January 1, 2015, ASU 2014 -11 changed the basis on which we account for repurchase to maturity transactions and linked repurchase financings to be consistent with the basis on which we account for secured borrowings. Accordingly, the assets and repurchase agreements that encompass linked transactions that were previously accounted for on a net basis and recorded as a forward purchase (derivative) contract are now bifurcated, and the gross amounts are reported in available for sale securities and repurchase agreements respectively. Consequently, our GAAP financial statements as of and for the period ended September 30, 2015 are not directly comparable to prior period GAAP financials; the most meaningful comparative portfolio metrics on a period to period basis are those encompassed in the non-GAAP presentation set out below. As of September 30, 2015 on a GAAP basis, our overall investments in MBS were \$462.6 million, compared to \$491.6 million as of June 30, 2015. The decrease was due in large part to the sales of Non-Agency RMBS securities noted earlier, in connection with our adoption of a more defensive portfolio composition in response to heightened interest rate and credit spread volatility. On a non-GAAP basis, our MBS investments decreased from \$689.9 million as of June 30, 2015 to \$598.1 million as of September 30, 2015. Within this total, we had decreased our Agency RMBS from \$233.1 million to \$227.1 million, decreased our Non-Agency RMBS (including our net investment amount in residential mortgage loan securitizations) from \$256.6 million to \$179.9 million and decreased our Multi-Family MBS (including our net investment amount in Multi-Family MBS) from \$200.3 million to \$191.2 million from quarter-end to quarter-end. Of the \$179.9 million in Non-Agency RMBS \$50.0 million represented our net investment in residential mortgage loan securitizations; and of the \$191.2 million in Multi-Family MBS, \$85.6 million represented our net investment in the Multi-Family MBS securitization trusts. As of September 30, 2015, on a GAAP and non-GAAP basis, we had increased our investment in residential mortgage loans from \$49.0 million to \$62.0 million.

We use leverage to increase potential returns to our stockholders. To that end, subject to maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we use borrowings to fund the origination or acquisition of our target assets. We accomplish this by borrowing against existing assets principally through repurchase agreements. Neither our organizational documents nor our investment guidelines places any limit on the maximum amount of leverage that we may use, and we are not required to maintain any particular debt-to-equity leverage ratio. We may also change our financing strategy and leverage without the consent of our stockholders.

The leverage that we employ is specific to each asset class in which we invest and will be determined based on several factors, including potential asset price volatility, margin requirements, the current cycle for interest rates, the shape of the yield curve, credit, security price, the outlook for interest rates and our ability to use and the effectiveness of interest rate hedges. We analyze both historical interest rate and credit volatility and market-driven implied volatility for each asset class in order to determine potential asset price volatility. Our leverage targets attempt to risk-adjust asset classes based on each asset class's potential price volatility. The goal of our leverage strategy is to ensure that, at all times, our investment portfolio's leverage ratio is appropriate for the level of risk inherent in the investment portfolio and that each asset class has individual leverage targets that are appropriate for its potential price volatility

The following tables summarize certain characteristics of our investment portfolio as of September 30, 2015 and December 31, 2014 (i) as reported in accordance with GAAP, which for September 30, 2015 excludes our net investment in consolidated Multi-Family MBS and prime jumbo mortgage securitization trusts and for December 31, 2014 excludes the Non-Agency RMBS underlying our Linked Transactions, Multi-Family MBS underlying our Linked Transactions and our net investment in consolidated Multi-Family MBS and prime jumbo mortgage securitization trusts; (ii) for September 30, 2015 to show separately our net investments in consolidated Multi-Family MBS and prime jumbo mortgage securitization trusts, and for December 31, 2014 to show separately the Non-Agency RMBS underlying our Linked Transactions, Multi-Family MBS underlying our Linked Transactions and our net investments in consolidated Multi-Family MBS and prime jumbo mortgage securitization trusts; and (iii) on a non-GAAP combined basis (which reflects the inclusion of the Non-Agency RMBS underlying our Linked Transactions, Multi-Family MBS underlying our Linked Transactions and our net investment in consolidated Multi-Family MBS and prime jumbo mortgage securitization trusts combined with our GAAP-reported MBS):

September 30, 2015

## GAAP Basis

	Principal Balance	Unamortized Premium (Discount)	Designated Credit Reserve	Amortized Cost	Unrealized Gain/ (Loss)	Fair Value	Net Weighted Average Coupon (1)	Average Yield (2)	
\$ in thousands									
Agency RMBS									
15 year fixed-rate	\$1,994	\$ 48	\$ -	\$2,042	\$ (7 )	\$2,035	2.50 %	1.98 %	
30 year fixed-rate	13,447	797	-	14,244	(177 )	14,067	3.50 %	2.64 %	
Hybrid RMBS	207,047	(1,317 )	-	205,730	5,232	210,962	2.31 %	2.68 %	
Total Agency RMBS	222,488	(472 )	-	222,016	5,048	227,064	2.39 %	2.67 %	
Non-Agency RMBS	171,819	(31,907 )	(13,963 )	125,949	708	126,657	0.83 %	5.95 %	
Multi-Family MBS	19,387	(39 )	-	19,348	362	19,710	5.35 %	5.39 %	
Multi-Family MBS PO	119,527	(34,660 )	-	84,867	1,054	85,921	0.00 %	6.69 %	
Total Multi-Family MBS	138,914	(34,699 )	-	104,215	1,416	105,631	0.75 %	6.31 %	
Non-Agency MBS IO, fair value option	214,560	-	-	3,833	(626 )	3,207	0.36 %	-1.61 %	
Multi-Family MBS IO, fair value option	-	-	-	-	-	-	-	-	
Multi-Family MBS PO, fair value option	-	-	-	-	-	-	-	-	
Total Multi-Family MBS, fair value option	-	-	-	-	-	-	-	-	
Residential Mortgage Loans	60,361	-	-	61,174	826	62,000	4.12 %	4.12 %	
Total/Weighted Average (GAAP)	\$808,142	\$ (67,078 )	\$ (13,963 )	\$517,187	\$ 7,372	\$524,559	1.36 %	4.35 %	

## Non-GAAP Adjustments

	Principal Balance	Unamortized Premium (Discount)	Designated Credit Reserve	Amortized Cost	Unrealized Gain/ (Loss)	Fair Value	Net Weighted Average Coupon (1)	Average Yield (2)	
\$ in thousands									
Agency RMBS									
15 year fixed-rate	\$-	\$ -	\$ -	\$-	\$ -	\$-	-	-	
30 year fixed-rate	-	-	-	-	-	-	-	-	
Hybrid RMBS	-	-	-	-	-	-	-	-	
Total Agency RMBS	-	-	-	-	-	-	-	-	

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Non-Agency RMBS	47,407	(5,500 )	-	41,907	131	42,038	3.74 %	4.72 %
Multi-Family MBS	32,103	(9,159 )	-	22,944	2,283	25,227	2.44 %	19.73 %
Multi-Family MBS PO	-	-	-	-	-	-	0.00 %	0.00 %
Total Multi-Family MBS	32,103	(9,159 )	-	22,944	2,283	25,227	2.44 %	19.73 %
Non-Agency MBS IO, fair value option	581,771	-	-	14,702	(6,733 )	7,969	0.32 %	7.65 %
Multi-Family MBS IO, fair value option	990,837	-	-	7,845	(705 )	7,140	0.18 %	19.17 %
Multi-Family MBS PO, fair value option	79,746	-	-	47,671	5,540	53,211	0.00 %	3.37 %
Total Multi-Family MBS, fair value option	1,070,583	-	-	55,516	4,835	60,351	0.16 %	5.60 %
Residential Mortgage Loans	-	-	-	-	-	-	-	-
Total/Weighted Average (Non-GAAP)	\$1,731,864	\$(14,659 )	\$ -	\$135,069	\$ 516	\$135,585	0.36 %	7.95 %

Non-GAAP Basis

	Principal Balance	Unamortized Premium (Discount)	Designated Credit Reserve	Amortized Cost	Unrealized Gain/ (Loss)	Fair Value	Net Weighted Average Coupon(1)	Average Yield(2)
\$ in thousands								
Agency RMBS								
15 year fixed-rate	\$1,994	\$48	\$-	\$2,042	\$(7 )	\$2,035	2.50 %	1.93 %
30 year fixed-rate	13,447	797	-	14,244	(177 )	14,067	3.50 %	2.65 %
Hybrid RMBS	207,047	(1,317 )	-	205,730	5,232	210,962	2.31 %	2.69 %
Total Agency RMBS	222,488	(472 )	-	222,016	5,048	227,064	2.39 %	2.68 %
Non-Agency RMBS	219,226	(37,407 )	(13,963 )	167,856	839	168,695	1.46 %	5.57 %
Multi-Family MBS	51,490	(9,198 )	-	42,292	2,645	44,937	3.54 %	13.17 %
Multi-Family MBS PO	119,527	(34,660 )	-	84,867	1,054	85,921	0.00 %	6.69 %
Total Multi-Family MBS	171,017	(43,858 )	-	127,159	3,699	130,858	1.07 %	8.85 %
Non-Agency MBS IO, fair value option	796,331	-	-	18,535	(7,359 )	11,176	0.33 %	5.74 %
Multi-Family MBS IO, fair value option	990,837	-	-	7,845	(705 )	7,140	0.18 %	19.17 %
Multi-Family MBS PO, fair value option	79,746	-	-	47,671	5,540	53,211	0.00 %	3.37 %
Total Multi-Family MBS, fair value option	1,070,583	-	-	55,516	4,835	60,351	0.16 %	5.60 %
Residential Mortgage Loans	60,361	-	-	61,174	826	62,000	4.12 %	4.12 %
Total/Weighted Average (Non-GAAP)	\$2,540,006	\$(81,737 )	\$(13,963 )	\$652,256	\$ 7,888	\$660,144	0.68 %	5.10 %

- (1) Weighted average coupon is presented net of servicing and other fees.
- (2) Average yield incorporates future prepayment assumptions as discussed in Note 2 to our condensed consolidated financial statements.



**December 31, 2014**

**GAAP Basis**

	Principal Balance	Unamortized Premium (Discount)	Designated Credit Reserve	Amortized Cost	Unrealized Gain/ (Loss)	Fair Value	Net Weighted Average Coupon (1)	Average Yield (2)
\$ in thousands								
Agency RMBS								
15 year fixed-rate	\$2,572	\$ 61	\$ -	\$2,633	\$ (10 )	\$2,623	2.50 %	1.97 %
30 year fixed-rate	79,206	4,426	-	83,632	(1,071 )	82,561	3.50 %	2.69 %
Hybrid RMBS	228,013	(1,935 )	-	226,078	3,570	229,648	2.32 %	2.70 %
Total Agency RMBS	309,791	2,552	-	312,343	2,489	314,832	2.62 %	2.69 %
Non-Agency RMBS	76,673	(15,209 )	(12,698 )	48,766	4,720	53,486	0.36 %	7.48 %
Multi-Family MBS	-	-	-	-	-	-	-	-
Multi-Family MBS PO	-	-	-	-	-	-	-	-
Total Multi-Family MBS	-	-	-	-	-	-	-	-
Non-Agency MBS IO, fair value option	-	-	-	-	-	-	-	-
Multi-Family MBS IO, fair value option	-	-	-	-	-	-	-	-
Multi-Family MBS PO, fair value option	-	-	-	-	-	-	-	-
Total Multi-Family MBS, fair value option	-	-	-	-	-	-	-	-
Residential Mortgage Loans	54,349	-	-	54,349	330	54,679	4.15 %	4.15 %
Total/Weighted Average (GAAP)	\$440,813	\$ (12,657 )	\$ (12,698 )	\$415,458	\$ 7,539	\$422,997	2.42 %	3.44 %

**Non-GAAP Adjustments**

	Principal Balance	Unamortized Premium (Discount)	Designated Credit Reserve	Amortized Cost	Unrealized Gain/ (Loss)	Fair Value	Net Weighted Average Coupon (1)	Average Yield (2)
\$ in thousands								
Agency RMBS								
15 year fixed-rate	\$-	\$ -	\$ -	\$-	\$ -	\$-	-	-
30 year fixed-rate	-	-	-	-	-	-	-	-
Hybrid RMBS	-	-	-	-	-	-	-	-
Total Agency RMBS	-	-	-	-	-	-	-	-

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Non-Agency RMBS	304,025	(35,108 )	(36,627 )	232,290	3,309	235,599	1.64	%	5.78	%
Multi-Family MBS	66,312	(9,235 )	-	57,077	1,150	58,227	3.93	%	7.40	%
Multi-Family MBS PO	68,760	(18,248 )	-	50,512	427	50,939	0.00	%	6.47	%
Total Multi-Family MBS	135,072	(27,483 )	-	107,589	1,577	109,166	1.93	%	6.96	%
Non-Agency MBS IO, fair value option	881,946	-	-	14,702	(432 )	14,270	0.35	%	20.89	%
Multi-Family MBS IO, fair value option	1,001,965	-	-	7,845	(346 )	7,499	0.18	%	22.35	%
Multi-Family MBS PO, fair value option	79,746	-	-	47,671	1,408	49,079	0.00	%	8.25	%
Total Multi-Family MBS, fair value option	1,081,711	-	-	55,516	1,062	56,578	0.17	%	10.24	%
Residential Mortgage Loans	-	-	-	-	-	-	-	-	-	-
Total/Weighted Average (GAAP)	\$2,402,754	\$ (62,591 )	\$ (36,627 )	\$410,097	\$ 5,516	\$415,613	0.52	%	7.24	%

Non-GAAP Basis

	Principal Balance	Unamortized Premium (Discount)	Designated Credit Reserve	Amortized Cost	Unrealized Gain/ (Loss)	Fair Value	Net Weighted Average Coupon(1)		Average Yield(2)	
\$ in thousands										
Agency RMBS										
15 year fixed-rate	\$2,572	\$ 61	\$ -	\$2,633	\$ (10 )	\$2,623	2.50	%	1.97	%
30 year fixed-rate	79,206	4,426	-	83,632	(1,071 )	82,561	3.50	%	2.69	%
Hybrid RMBS	228,013	(1,935 )	-	226,078	3,570	229,648	2.32	%	2.70	%
Total Agency RMBS	309,791	2,552	-	312,343	2,489	314,832	2.62	%	2.69	%
Non-Agency RMBS	380,698	(50,317 )	(49,325 )	281,056	8,029	289,085	1.38	%	6.08	%
Multi-Family MBS	66,312	(9,235 )	-	57,077	1,150	58,227	3.93	%	7.40	%
Multi-Family MBS PO	68,760	(18,248 )	-	50,512	427	50,939	0.00	%	6.47	%
Total Multi-Family MBS	135,072	(27,483 )	-	107,589	1,577	109,166	1.93	%	6.96	%
Non-Agency MBS IO, fair value option	881,946	-	-	14,702	(432 )	14,270	0.35	%	20.89	%
Multi-Family MBS IO, fair value option	1,001,965	-	-	7,845	(346 )	7,499	0.18	%	22.35	%
Multi-Family MBS PO, fair value option	79,746	-	-	47,671	1,408	49,079	0.00	%	8.25	%
Total Multi-Family MBS, fair value option	1,081,711	-	-	55,516	1,062	56,578	0.17	%	10.24	%
Residential Mortgage Loans	54,349	-	-	54,349	330	54,679	4.15	%	4.15	%
Total/Weighted Average (GAAP)	\$2,843,567	\$ (75,248 )	\$ (49,325 )	\$825,555	\$ 13,055	\$838,610	0.81	%	5.33	%

- (1) Weighted average coupon is presented net of servicing and other fees.
- (2) Average yield incorporates future prepayment assumptions as discussed in Note 2 to our condensed consolidated financial statements.

For financial statement reporting purposes, prior to January 1, 2015, GAAP required us to account for certain of our Non-Agency RMBS and Multi-Family MBS and the associated repurchase agreement financing as Linked Transactions, and requires us to consolidate the assets and liabilities of four Multi-Family MBS and prime jumbo residential mortgage securitization trusts. Accordingly, the measures in the foregoing tables and charts prepared on a GAAP basis for September 30, 2015 do not include our net investments in the four consolidated Multi-Family MBS and prime jumbo residential mortgage securitization trusts, and for December 31, 2014 do not include Non-Agency RMBS underlying our Linked Transactions, Multi-Family MBS underlying our Linked Transactions as well as our net investments in the four Multi-Family MBS and prime jumbo residential mortgage securitization trusts. However, in managing and evaluating the composition and performance of our MBS portfolio, we did not previously view the purchase of our Non-Agency RMBS and Multi-Family MBS and the associated repurchase agreement financing as transactions that are linked, and our maximum exposure to loss from consolidation of the four trusts is \$137.6 million as of September 30, 2015. We therefore have also presented certain information that includes both the Non-Agency RMBS underlying our Linked Transactions, Multi-Family MBS underlying our Linked Transactions and our net investments in the four Multi-Family MBS and prime jumbo residential mortgage securitization trusts. This information constitutes non-GAAP financial measures within the meaning of Regulation G, as promulgated by the SEC. We believe that this non-GAAP information enhances the ability of investors to analyze our MBS portfolio and the performance of our Non-Agency RMBS and Multi-Family MBS in the same way that we assess our MBS portfolio and such assets. While we believe the non-GAAP information included in this report provides supplemental information to assist investors in analyzing that portion of our portfolio composed of Non-Agency RMBS and Multi-Family MBS, these measures are not in accordance with GAAP, and they should not be considered a substitute for, or superior to, our financial information calculated in accordance with GAAP. Our GAAP financial results and the reconciliations from these results should be carefully evaluated.

The following table summarizes certain characteristics of our investment portfolio on a non-GAAP combined basis (including Non-Agency RMBS underlying Linked Transactions, Multi-Family MBS underlying Linked Transactions and our net investments in consolidated Multi-Family MBS and residential loan securitization trusts), at fair value, according to their estimated weighted average life classifications as of September 30, 2015 and December 31, 2014, respectively:

	September 30, 2015	December 31, 2014
	Fair Value	Fair Value
Less than one year	\$ -	\$ -
Greater than one year and less than five years	112,199,269	62,946,125
Greater than or equal to five years	485,944,557	720,981,007
Total	\$ 598,143,826	\$ 783,927,132

*Variances between GAAP and tax income.* Due to the potential timing differences in the recognition of GAAP net income compared to REIT taxable income on our investments, our net income and the unamortized amount of purchase discounts and premiums calculated in accordance with GAAP may differ significantly from such amounts calculated for purposes of determining our REIT taxable income. In accordance with GAAP, a portion of the purchase discounts on our Non-Agency RMBS are allocated to a Credit Reserve and, as such, are not expected to be accreted into interest income. Accordingly, potential timing differences arise with respect to the accretion of market discount into income for tax purposes as compared to GAAP.

*Financing and other liabilities.* We enter into repurchase agreements to finance the majority of our Agency and Non-Agency RMBS and Multi-Family MBS. These agreements are secured by our Agency and Non-Agency RMBS and Multi-Family MBS and bear interest at rates that have historically moved in close relationship to the London Interbank Offer Rate, or LIBOR. As of September 30, 2015, we had entered into repurchase agreements totaling \$413.2 million, on a GAAP basis and non-GAAP basis.

The following tables summarize the average balance, the end of period balance and the maximum balance at month-end of our repurchase agreements for the period from January 1, 2015 to September 30, 2015 on a GAAP and non-GAAP basis:

Period ended September 30, 2015	Repurchase Agreements		
	Period Average Balance	End of Period Balance	Maximum Balance at Month-End During the Period
GAAP and non-GAAP basis			
Period from January 1, 2015 to September 30, 2015	\$574,633,066	\$413,242,000	\$661,658,000

As of September 30, 2015, we had entered into three warehouse facilities with an aggregate borrowing limit of \$375 million structured as repurchase agreements to finance our residential mortgage loans. These agreements are secured by our prime jumbo mortgage loans and bear interest at rates that have historically moved in close relationship to the London Interbank Offer Rate, or LIBOR. As of September 30, 2015, we had borrowings totaling \$53.0 million on a GAAP and non-GAAP basis under these agreements.

The following table summarizes the average balance, the end of period balance and the maximum balance at month-end of our repurchase agreements for the period from January 1, 2015 to September 30, 2015 on both a GAAP and non-GAAP basis

#### Repurchase Agreements

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GAAP and non-GAAP	Period Average Balance	End of Period Balance	Maximum Balance at Month-End During the Period
Period from January 1, 2015 to September 30, 2015	\$55,080,657	\$ 52,998,963	\$ 97,360,852

In February 2015, our wholly owned subsidiary, FOI, became a member of the FHLBI. As a member of the FHLBI, FOI has borrowed funds from the FHLBI in the form of secured advances collateralized by our securities. As of September 30, 2015, FOI had \$51.4 million in outstanding short-term secured advances and is approved for additional available uncommitted credit for borrowing of an amount up to \$500 million. Available uncommitted credit may be adjusted at the sole discretion of the FHLBI. The ability to borrow funds from the FHLBI is subject to the Company's continued credit-worthiness, pledging of sufficient eligible collateral to secure advances, and compliance with certain agreements with FHLBI. The secured advances bear interest at floating rates based on three-month LIBOR plus a spread. For the nine months ended September 30, 2015, FOI had average borrowings of \$23.1 million with a weighted average borrowing rate of 0.36%.

*Hedging instruments.* Subject to maintaining our qualification as a REIT, we generally hedge as much of our interest rate risk as we deem prudent in light of market conditions. No assurance can be given that our hedging activities will have the desired beneficial impact on our results of operations or financial condition.

Interest rate hedging has not fully protected us, and may fail to protect or could adversely affect us in the future, because, among other things:

- our investment policies do not contain specific requirements as to the percentages or amount of interest rate risk that we are required to hedge;
- available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability;

· the party owing money in the hedging transaction may default on its obligation to pay;

· the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and

· the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value. Downward adjustments or mark-to-market losses would reduce our stockholders' equity.

During the quarter, we replaced our use of interest rate swap agreements with Eurodollar futures contracts, which represent LIBOR-based derivative contracts reflecting the three-month LIBOR rate for \$1 million per contract. Our decision to replace swaps with Eurodollar futures was based primarily on better liquidity and typically lower margin requirements. We had also employed U.S. Treasury futures and deliverable swap futures for interest rate hedging purposes. Our investment guidelines do not place any limit on the percentage of assets that we may invest in interest rate or other derivative agreements. The mark-to-market value of an interest rate derivative agreement under any reasonable interest rate scenario is likely to be a fraction of the notional amount of the asset or liability being hedged.

The following tables summarize our hedging activity as of September 30, 2015:

### September 30, 2015

Expiration Year	Contracts	Notional	Fair Value
Eurodollar Futures Contracts (Short Positions)			
2015	373	\$373,000,000	\$2,300
2016	1,478	1,478,000,000	(134,738 )
2017	1,476	1,476,000,000	(324,962 )
2018	876	876,000,000	(370,762 )
2019	361	361,000,000	(256,438 )
Total	4,564	\$4,564,000,000	\$(1,084,600)
Treasury Note Futures Contracts (Short Positions)			
December 2015 10 Year Treasury Note Futures	300	\$30,000,000	\$(318,750 )
Deliverable Swap Futures (Short Positions)			
December 2015 5 Year Deliverable Interest Rate Swap Futures	70	\$7,000,000	\$(91,875 )

### Stockholders' Equity and Book Value Per Share

As of September 30, 2015, our stockholders' equity was \$188.3 million, comprised of \$ 37.2 million of preferred equity and \$ 151.1 million of common equity, and our book value per common share was \$10.26 on a basic and fully diluted basis. Our stockholders' equity decreased by \$6.5 million over our stockholders' equity as of June 30, 2015, while book value per common share declined by 4.2% from the previous quarter-end amount of \$10.71. Unrealized gains and losses on AFS securities are reflected in stockholders' equity rather than in our condensed consolidated statement of operations as a component of other comprehensive income, or OCI. The decrease in stockholders' equity was primarily the result of credit spread widening during the quarter, which led to lower unrealized gains and higher unrealized losses on Non-Agency RMBS and Multi-Family MBS positions, together with a decrease in the aggregate value of derivatives reflecting unusual volatility in the interest rate markets during the quarter.

### **Critical Accounting Policies**

Our financial statements are prepared in accordance with U.S. GAAP. These accounting principles may require us to make some complex and subjective decisions and assessments. Our most critical accounting policies involve decisions, assessments and estimates that could affect our reported assets and liabilities, as well as our reported revenues and expenses. Actual results could differ from these estimates. All of our estimates upon which our financial statements are based are based upon information available to us at the time of making the estimate. For a discussion of our critical accounting policies, in particular ASU 2014-11 and our early adoption of ASU 2014-13, see "Notes to Condensed Consolidated Financial Statements" beginning on page F-11 of this report.



## Capital Allocation

The following tables set forth our allocated capital by investment type at September 30, 2015:

### September 30, 2015

#### Non-GAAP Basis

	Agency MBS	Multi-Family MBS(1)	Non-Agency RMBS(1)	Residential Loans	Unrestricted Cash(2)	Total
Market Value	227,064,571	191,209,068	179,870,187	65,920,570	27,482,330	691,546,726
Repurchase Agreements	(215,456,000)	(114,856,000)	(134,430,000)	(52,998,963)	-	(517,740,963)
Hedges	(1,069,832 )	(425,393 )	-	-	-	(1,495,225 )
Other <sup>(3)</sup>	3,830,614	156,110	230,832	221,729	8,284	4,447,569
Restricted Cash	5,367,832	2,817,044	3,359,883	-	-	11,544,759
Equity Allocated	19,737,185	78,900,829	49,030,902	13,143,336	27,490,614	188,302,866
% Equity	10.5	% 41.9	% 26.0	% 7.0	% 14.6	% 100.0

(1) Includes the fair value of our net investments in the FREMF 2011-K13, FREMF 2012-KF01, JPMMT 2014-OAK4 and CSMC 2014-OAK1 Trusts.

(2) Includes cash and cash equivalents

(3) Includes interest receivable, goodwill, prepaid and other assets, FHLBI capital stock, interest payable, dividend payable and accrued expenses and other liabilities

## Results of Operations

With effect from January 1, 2015, ASU 2014 -11 changed the basis on which we account for repurchase to maturity transactions and linked repurchase financings to be consistent with the basis on which we account for secured borrowings. Accordingly, the assets and repurchase agreements that encompass Linked Transactions that were previously accounted for on a net basis and recorded as a forward purchase (derivative) contract are now bifurcated;

each of the components that were previously reported on a net basis as “Unrealized gain and net interest income from linked transactions”, representing changes in the fair value of the assets and liabilities and associated interest income and expense are now reported on a gross basis on our consolidated statement of operations. In addition, as of September 30, 2015, we consolidated the assets and liabilities of two Multi-Family MBS securitization trusts, the FREMF 2011-K13 Trust, and the FREMF 2012-KF01 Trust and two prime jumbo residential mortgage securitization trusts, JPMMT 2014-OAK4 and CSMC 2014-OAK1, or collectively the consolidated trusts. Consequently, our results of operations for the period ended September 30, 2015 are not directly comparable to those for the period ended September 30, 2014.

The table below presents certain information from our condensed consolidated Statement of Operations for the period January 1, 2015 to September 30, 2015 and the period January 1, 2014 to September 30, 2014:

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	Three Months Ended September 30,2015	Three Months Ended September 30,2014	Nine Months Ended September 30,2015	Nine Months Ended September 30,2014
Revenues:				
Interest income:				
Available-for-sale securities	5,460,965	\$ 4,513,999	19,020,504	\$ 12,904,238
Mortgage loans held-for-sale	618,106	1,310,068	1,965,671	1,317,585
Multi-family loans held in securitization trusts	16,794,338	2,433,318	51,679,542	2,433,318
Residential loans held in securitization trusts	4,641,887	-	15,573,046	-
Cash and cash equivalents	4,809	9,802	13,386	18,395
Interest expense:	-	-	-	-
Repurchase agreements - available-for-sale securities	(1,490,698 )	(635,062 )	(4,992,998 )	(1,797,322 )
Repurchase agreements - mortgage loans held-for-sale	(354,106 )	(721,239 )	(1,183,093 )	(727,005 )
Multi-family securitized debt obligations	(15,372,832 )	(2,239,797 )	(47,286,613 )	(2,239,797 )
Residential securitized debt obligations	(3,137,247 )	-	(9,894,956 )	-
Net interest income	7,165,222	4,671,089	24,894,489	11,909,412
Other-than-temporary impairments:				
(Increase)/decrease in credit reserves	(350,924 )	-	(1,761,208 )	-
Additional-other-than-temporary credit impairment losses	-	-	(2,890,939 )	-
Total impairment losses recognized through earnings	(350,924 )	-	(4,652,147 )	-
Other income:				
Realized gain (loss) on sale of investments, net	1,464,308	1,024,168	1,834,151	(2,433,071 )
Unrealized gain (loss) and net interest income from Linked Transactions	-	754,189	-	15,458,922
Realized gain (loss) on derivative contracts, net	(8,262,423 )	(9,079,091 )	(12,310,301 )	(10,771,684 )
Unrealized gain (loss) on derivative contracts, net	1,631,907	10,009,742	782,901	(1,091,127 )
Realized gain (loss) on mortgage loans held-for-sale	(13,666 )	(73,132 )	1,017,625	(73,132 )
Unrealized gain (loss) on mortgage loans held-for-sale	539,456	474,095	496,297	567,337
Unrealized gain (loss) on mortgage servicing rights, fair value option	(488,247 )	-	(756,558 )	-
	1,804,190	285,328	5,644,774	285,328

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Unrealized gain (loss) on multi-family loans held in securitization trusts					
Unrealized gain (loss) on residential loans held in securitization trusts	(1,323,697	) -	(7,655,902	) -	
Other income	33,374	-	59,985	-	
Total other income (loss)	(4,614,798	) 3,395,299	(10,887,028	) 1,942,573	
Expenses:					
Management fee	703,167	790,188	2,119,571	1,880,566	
General and administrative expenses	1,419,268	728,488	4,820,505	1,361,290	
Operating expenses reimbursable to Manager	1,338,272	843,943	3,444,914	2,383,413	
Other operating expenses	(20,377	) 439,198	1,185,164	944,328	
Compensation expense	64,207	51,408	187,202	185,890	
Total expenses	3,504,537	2,853,225	11,757,356	6,755,487	
Net income (loss) before provision for income taxes	(1,305,037	) 5,213,163	(2,402,042	) 7,096,498	
(Provision for) benefit from income taxes	-	(179,136	) -	(179,136	)
Net income (loss)	(1,305,037	) 5,034,027	(2,402,042	) 6,917,362	
Dividends to preferred stockholders	(880,509	) (880,5095	) (2,631,744	) (1,997,004	)
Net income (loss) attributable to common stockholders	(2,185,546	) \$ 4,153,518	(5,033,786	) \$ 4,920,358	
Earnings (loss) per share:					
Net income attributable to common stockholders (basic and diluted)	(2,185,546	) \$ 4,153,518	(5,033,786	) \$ 4,920,358	
Weighted average number of shares of common stock outstanding	14,724,750	14,640,065	14,721,635	11,564,737	
Basic and diluted income per share	(0.15	) \$ 0.28	(0.34	) \$ 0.43	
Dividends declared per share of common stock	0.30	\$ 0.38	1.05	\$ 1.10	

### Net Income Summary

For the nine months ended September 30, 2015, our net loss attributable to common stockholders was \$5,033,786 or \$0.34 basic and diluted net income per average share, compared with a net income of \$4,920,358 or 0.43 basic and diluted net income per share, for the nine months ended September 30, 2014. The principal drivers of this net loss represent impairment charges recognized through earnings, and components of other income (loss) as discussed below under Other Income (Loss) and Other-Than-Temporary Impairment.

For the three months ended September 30, 2015, our net loss attributable to common stockholders was \$2,185,546 or \$0.15 basic and diluted net income per average share, compared with a net income of \$4,153,518 or 0.28 basic and diluted net income per share, for the three months ended September 30, 2014. The principal drivers of this decrease in net income represent components of other income (loss) as discussed below.

### Interest Income and Interest Expense

As noted above, in connection with our consolidation of the consolidated trusts, we are required to include the interest income and interest expense of the trusts in our condensed consolidated statement of operations. This limits the comparability of these measures with prior periods.

An important source of income is net interest income. For the nine months ended September 30, 2015 and the nine months ended September 30, 2014 our interest income was \$88,252,149 and \$16,673,536, respectively. Our interest expense was \$63,357,660 and \$7,166,809 respectively, for the nine months ended September 30, 2015 and the nine months ended September 30, 2014.

For the three months ended September 30, 2015 and the three months ended September 30, 2014 our interest income was \$27,520,105 and \$8,267,187 respectively. Our interest expense was \$20,354,883 and \$4,856,644 respectively, for the three months ended September 30, 2015 and the three months ended September 30, 2014.

### Net Interest Income

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For the nine months ended September 30, 2015 and the nine months ended September 30, 2014, our net interest income was \$24,894,489 and \$11,909,412 respectively, with the increase reflecting the increase in higher yielding credit risk assets compared to the prior period.

For the three months ended September 30, 2015, and the three months ended September 30, 2014, our net interest income was \$7,165,222 and \$4,671,089, respectively.

### Other Income (Loss)

For the nine months ended September 30, 2015, our other income represented a loss of \$10,887,028 which primarily reflects the impact of volatile interest rates during the third quarter, in turn generating net realized losses of \$12,310,301 on interest rate hedges, and net unrealized loss on mortgage servicing rights of \$756,558. Additionally, net unrealized losses on residential mortgage loans held in the JPMMT 2014-OAK4 and CSMC 2014-OAK1Trusts were \$7,645,902. These losses in aggregate more than offset unrealized gain on multi-family loans held in the 2011-K13 and 2012-KF01Trusts of \$5,644,774, net realized gain on mortgage loans of \$1,017,625, net realized gains on sales of investments of \$1,834,151, net unrealized gains on mortgage loans of \$496,297, net unrealized gains on interest hedges of \$782,901 and net other income of \$59,985. As noted above, unrealized gains or losses on AFS securities, which typically offset unrealized gains or losses on interest rate hedges, are a component of OCI and as such are reflected in stockholders' equity rather than in our condensed consolidated statement of operations.

For the nine months ended September 30, 2014, our other income represented a gain of \$1,942,573, which primarily reflects the impact of net unrealized gain and net interest income on our Linked Transactions of \$15,458,922, unrealized gain on multi-family loans held in the 2011-K13 Trust of \$285,328 and unrealized gain on residential mortgage loans of \$567,337 which in aggregate offset net realized losses on sales of investments of \$2,433,071, net unrealized losses on interest rate hedges of \$1,091,127, net realized losses of \$10,771,684 on interest rate hedges and net realized loss on mortgage loans of \$73,132.

For the three months ended September 30, 2015, our other income represented a loss of \$4,614,798, which primarily reflects the impact of net realized gains on sales of investments of \$1,464,308, net unrealized gain on interest rate hedges of \$1,631,907, unrealized gain on multi-family loans held in the 2011-K13 and 2012-KF01Trusts of \$1,804,190, unrealized realized gain on mortgage loans held for sale of \$539,456 and net other income of \$33,374, which in aggregate were more than offset by unrealized loss on residential mortgage loans held in the JPMMT 2014-OAK4 and CSMC 2014-OAK1Trusts of \$1,323,697, net realized losses of \$8,262,423 on interest rate hedges, realized loss on mortgage loans held for sale of \$13,666 and net unrealized loss on mortgage servicing rights of \$488,247.

For the three months ended September 30, 2014, our other income represented a gain of \$3,395,299, which primarily reflects the impact of net realized gain on sales of investments of \$1,024,168, unrealized gain and net interest income on our Linked Transactions of \$754,189, net unrealized gains on interest hedges of \$10,009,742, unrealized gain on

multi-family loans held in securitization trusts of \$285,328 and unrealized gain on residential mortgage loans of \$474,095, which in aggregate offset net realized losses on interest rate hedges of \$9,079,091 and net realized losses on mortgage loans of \$73,132. Again, it is worth noting that unrealized gains on AFS securities, which typically offset unrealized losses on interest rate hedges, are a component of OCI, and as such are reflected in stockholders' equity rather than in our statement of operations.

### Expenses

In connection with our consolidation of the consolidated trusts, we are required to include the expenses of the trusts in our condensed consolidated statement of operations. This limits the comparability of expenses with prior periods.

We incurred management fees of \$2,119,571 for the nine months ended September 30, 2015 representing amounts payable to our Manager under our management agreement. We also incurred operating expense of \$9,637,785, of which \$3,444,914 was payable to our Manager and \$6,192,871 was payable directly by us. Our general and administrative expenses of \$4,820,505 for the nine months ended September 30, 2015 represent the cost of legal, accounting, auditing and consulting services.

For the nine months ended September 30, 2014, we incurred management fees and other operating expenses of \$1,880,566 and \$4,874,921 respectively, of which \$2,383,413 was payable to our Manager and \$2,491,508 was payable directly by us. Our general and administrative expenses of \$1,361,290 for the nine months ended September 30, 2014 represent the cost of legal, accounting, auditing and consulting services.

For the three months ended September 30, 2015, we incurred management fees of \$703,167 representing amounts payable to our Manager under our management agreement. We also incurred other operating expense of \$2,801,370 of which \$1,338,272 was payable to our Manager and \$1,463,098 was payable directly by us. Our general and administrative expenses of \$1,419,268 for the three months ended September 30, 2015 represent the cost of legal, accounting, auditing and consulting services.

For the three months ended September 30, 2014, we incurred management fees of \$790,188 representing amounts payable to our Manager under our management agreement. We also incurred other operating expense of \$2,063,037 of which \$843,943 was payable to our Manager and \$1,219,094 was payable directly by us. Our general and administrative expenses of \$728,488 for the three months ended September 30, 2014 represent the cost of legal, accounting, auditing and consulting services.

#### Other-Than-Temporary Impairment

We review each of our securities on a quarterly basis to determine if an OTTI change is necessary. For the nine months ended September 30, 2015, we recognized \$4,652,147 in OTTI losses. For the nine months ended September 30, 2014, we did not recognize any OTTI losses. The increase in OTTI during the nine months ended September 30, 2015 reflected an increase in the Company's credit loss expectations on certain legacy Non-Agency RMBS with a fair value of \$16,473,436 as of period end. For further information about evaluating AFS securities for other-than-temporary impairments, refer to *Note 2 - Summary of Significant Accounting Policies* of the notes to our condensed consolidated financial statements.

#### Net Income (Loss) and Return on Equity



Our net loss attributable to common stockholders was \$5,033,786 for the nine months ended September 30, 2015, after accounting for preferred stock dividends of \$2,631,744, representing an annualized loss of 3.55% on average stockholders' equity of \$189,568,834. As noted earlier, unrealized net gains or losses on AFS securities are not reflected in our statement of operations, but are instead a component of OCI. For the nine months ended September 30, 2015, our comprehensive loss attributable to common stockholders was \$1,395,189 which included \$3,638,597 in total other comprehensive income. This represents an annualized loss of 0.98% on average stockholders' equity.

Our net income attributable to common stockholders was \$4,920,358 for the nine months ended September 30, 2014, after accounting for preferred stock dividends of \$1,997,004, representing an annualized return of 4.23% on average stockholders' equity of \$155,377,408. As noted earlier, unrealized net gains or losses on AFS securities are not reflected in our statement of operations, but are instead a component of OCI. For the nine months ended September 30, 2014, our comprehensive income attributable to common stockholders was \$21,441,216, which included \$16,520,858 in total other comprehensive income. This represented an annualized return of 18.45% on average stockholders' equity.

Our net loss attributable to common stockholders was \$2,185,546 for the three months ended September 30, 2015, after accounting for preferred stock dividends of \$880,509, representing an annualized loss of 4.58% on average stockholders' equity of \$189,415,458. For the three months ended September 30, 2015, our comprehensive loss attributable to common stockholders was \$2,010,767 which included \$174,779 in total other comprehensive gain. This represents an annualized loss of 4.21% on average stockholders' equity.

Our net income attributable to common stockholders was \$4,153,518 for the three months ended September 30, 2014, after accounting for preferred stock dividends of \$880,509, representing an annualized return of 8.72% on average stockholders' equity of \$188,901,672. As noted earlier, unrealized net gains or losses on AFS securities are not reflected in our statement of operations, but are instead a component of OCI. For the three months ended September 30, 2014, our comprehensive income attributable to common stockholders was \$2,642,639, which included \$1,510,879 in total other comprehensive loss. This represented an annualized return of 5.55% on average stockholders' equity.

## **Liquidity and Capital Resources**

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to pay dividends, fund investments, and repay borrowings and other general business needs. Our primary sources of funds for liquidity consist of the net proceeds from our prior issuances of common and preferred stock, or Equity Sales, net cash provided by operating activities, cash from repurchase agreements, including warehouse facilities, and other financing arrangements, including FHLB advances. We currently finance Non-Agency and Agency RMBS and Multi-Family MBS primarily through the use of repurchase agreements, including warehouse facilities, together with secured advances from the FHLBI.



We intend to continue to maintain a level of liquidity in relation to our assets that enables us to meet reasonably anticipated margin calls but that also allows us to be substantially invested in Non-Agency and Agency RMBS, Multi-Family MBS and residential mortgage loans. We may misjudge the appropriate amount of our liquidity by maintaining excessive liquidity, which would lower our investment returns, or by maintaining insufficient liquidity, which would force us to liquidate assets into unfavorable market conditions and harm our operating results. As of September 30, 2015, we had unrestricted cash and cash equivalents of \$27.5 million available to meet margin calls on our repurchase agreements and derivative instruments, compared to \$30.1 million as of June 30, 2015.

As of September 30, 2015, net proceeds from repurchase agreements related to available-for-sale securities totaled \$413.3 million, on a GAAP and non-GAAP basis, with a weighted-average borrowing rate of 1.31%, on a GAAP and non-GAAP basis, which we used to finance the acquisition of Agency RMBS, Non-Agency RMBS and Multi-Family MBS. Pursuant to ASU 2014-11 as of January 1, 2015, \$149.3 million of repurchase agreement financings previously accounted for on a net basis as a component of Linked Transactions were reclassified, and the gross amounts are now reported in repurchase agreements. This reclassification did not have any impact on our liquidity, since we did not previously view the repurchase agreement financings that were accounted for as a component of Linked Transactions as being linked for the purpose of managing our liquidity resources. Repurchase agreements related to held-for-sale mortgage loans totaling \$ 53.0 million on a GAAP and non-GAAP basis, with a weighted-average borrowing rate of 2.68 % which we used to finance the acquisition of prime jumbo mortgage loans. Additionally, we had \$51.4 million in outstanding secured advances from the FHLBI on a GAAP and non-GAAP basis with a weighted average borrowing rate of 0.46%. After factoring in unrestricted cash and cash equivalents, we generally target a debt-to-equity ratio with respect to our Agency RMBS and residential mortgage loans of six to nine times, between one and two times when acquiring Legacy Non-Agency RMBS and between one and three times when acquiring Multi-Family MBS or New Issue Non-Agency RMBS. As of September 30, 2015, we had an overall debt-to-equity ratio of 2.8:1 on a GAAP and non-GAAP basis. The repurchase obligations mature and reinvest every 30 to 360 days. See "-Contractual Obligations and Commitments" below. We expect to continue to borrow funds in the form of repurchase agreements, including warehouse facilities. As of September 30, 2015, for our available-for-sale securities we had established repurchase borrowing arrangements with various investment banking firms and other lenders and had outstanding borrowings with 11 of these lenders totaling \$413.3 million, on a GAAP and non-GAAP basis. Additionally, as of September 30, 2015, for our held-for-sale mortgage loans we had established three master repurchase agreements with investment banking firms and had outstanding borrowings with two of these lenders totaling \$53.0 million, on a GAAP and non-GAAP basis.

Under our repurchase agreements and secured advances from the FHLBI, together our borrowing agreements, we may be required to pledge additional assets to our repurchase agreement counterparties (lenders) in the event that the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional securities or cash. We are subject to various financial covenants under our borrowing agreements and derivative contracts, which include minimum net worth and/or profitability requirements, maximum debt-to-equity ratios and minimum market capitalization requirements. As of September 30, 2015, we were in compliance with all of our financial covenants in, and were not in default under any of, such agreements and contracts. Generally, our borrowing agreements contain a financing rate, term and trigger levels for margin calls and haircuts depending on the types of collateral and the counterparties involved. If the estimated fair value of the investment securities increases due to changes in market interest rates or market factors, lenders may release collateral back to us. Specifically, margin calls may result from a decline in the value of the

investments securing our borrowing agreements, prepayments on the residential mortgages securing our MBS investments and from changes in the estimated fair value of such investments generally due to principal reduction of such investments from scheduled amortization and resulting from changes in market interest rates and other market factors. Counterparties also may choose to increase haircuts based on credit evaluations of us and/or the performance of the bonds in question. Across all of our borrowing facilities, the haircuts range from a low of 3% to a high of 55%, and the weighted average haircut was 17.56% as of September 30, 2015, reflecting our previously discussed reductions in Agency RMBS which exceeded the decreases in our other target assets. Declines in the value of our securities or loan portfolio can trigger margin calls by our lenders under our borrowing agreements. Should prepayment speeds on the residential mortgages underlying our MBS investments or market interest rates increase, margin calls on our borrowing agreements could result, causing an adverse change in our liquidity position.

If the decline in market value of our securities collateralizing our borrowing facilities, or the combination of declining market value of our pledged securities and increasing haircuts, were to exceed the amount of our available liquidity, we would have to sell assets and may not realize sufficient proceeds to repay the amounts we owe to our lenders. However, as our liquidity decreased, we would attempt to de-leverage in an effort to avoid such a situation. In the period ended September 30, 2015, we did experience certain margin calls, generally the result of either principal paydowns on, or decreased market prices of, our MBS investments, and all such margin calls were promptly met. In general, periods of heightened market volatility will result in more frequent changes in the prices of MBS investments, and thus increased frequency of margin calls.

Upon repayment of each borrowing under a borrowing agreement, we may use the collateral immediately for borrowing under a new borrowing agreement. We have not at the present time entered into any other commitment agreements under which the lender would be required to enter into new borrowing agreements during a specified period of time.

As of September 30, 2015, we consolidated the assets and liabilities of two Multi-Family MBS securitization trusts, the FREMF 2011-K13 Trust, and the FREMF 2012-KF01 Trust and two prime jumbo residential mortgage securitization trusts, JPMMT 2014-OAK4 and CSMC 2014-OAK1. The assets of the trusts are restricted and can only be used to fulfill their respective obligations. Accordingly, the obligations of the trusts, which we classify as Multi-Family MBS securitized debt obligations and residential securitized debt obligations, do not have any recourse to us as the consolidator of the trusts. As of September 30, 2015, the fair value of these non-recourse liabilities aggregated to \$1,871,026,569 and they are excluded from discussion and analysis of our leverage.

In February 2015, our wholly owned subsidiary, FOI, became a member of the FHLBI. As a member of the FHLBI, FOI has borrowed funds from the FHLBI in the form of secured advances. As of September 30, 2015, FOI had \$51.4 million in outstanding short-term secured advances and is approved for available uncommitted credit for borrowing an aggregate amount up to \$500 million. Available uncommitted credit may be adjusted at the sole discretion of the FHLBI. The ability to borrow funds from the FHLBI is subject to the Company's continued credit worthiness, pledging of sufficient eligible collateral to secure advances, and compliance with certain agreements with FHLBI. The secured advances are due in three months and bear interest at floating rates based on three-month LIBOR plus a spread. For the nine months ended September 30, 2015 FOI had average borrowings of \$23.1 million with a weighted average borrowing rate of 0.36 %.

Any future ability to borrow from the FHLB will be subject, in addition to the successful conclusion of such negotiations, to our continued creditworthiness, pledging of sufficient eligible collateral to secure advances, and compliance with certain agreements with the FHLB. Each advance will require approval by the FHLB and will be secured by collateral in accordance with the FHLB's credit and collateral guidelines, as may be revised from time to time by the FHLB. Eligible collateral may include conventional one-to-four family residential mortgage loans, Agency RMBS and Non-Agency RMBS with an A rating and above.

### **Forward-Looking Statements Regarding Liquidity**

Based upon our current portfolio, leverage rate and available borrowing arrangements, we believe that the net proceeds of our prior Equity Sales combined with cash flow from operations and available borrowing capacity, will be sufficient to enable us to meet anticipated short-term (one year or less) liquidity requirements to fund our investment activities, pay fees under our management agreement, fund our distributions to stockholders and for other general corporate expenses.

Our ability to meet our long-term (greater than one year) liquidity and capital resource requirements will be subject to obtaining additional debt financing and equity capital. We may increase our capital resources by obtaining long-term credit facilities or making additional public or private offerings of equity or debt securities, possibly including classes of preferred stock, common stock and senior or subordinated notes. Such financing will depend on market conditions

for capital raises and for the investment of any proceeds. If we are unable to renew, replace or expand our sources of financing on substantially similar terms, it may have an adverse effect on our business and results of operations.

To maintain our qualification as a REIT, we generally must distribute annually at least 90% of our "REIT taxable income" (determined without regard to the deduction for dividends paid and excluding net capital gain). These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations.

### **Contractual Obligations and Commitments**

We entered into a contractual arrangement with our Manager when we commenced operations on May 16, 2012. Our Manager is entitled to receive a management fee and the reimbursement of certain expenses. Because our management agreement provides that our Manager is responsible for managing our affairs, our executive officers, who are employees of our Manager and not our employees, will not receive cash compensation from us for serving as our executive officers. We have no employees.

Additionally, concurrently with the commencement of our residential mortgage loan securitization business, we entered into an arrangement with our Manager in accordance with the terms of our management agreement as to the payment of certain invoices for fulfillment services that our Manager has provided, and expects to continue to provide, to us for our aggregation and securitization business that otherwise would have been provided to us by third parties. All of the invoices paid as of September 30, 2015 were paid in accordance with guidelines approved by our Audit Committee pursuant to our related party transactions policy. A significant portion of the fee payments were utilized by our Manager to pay incentive compensation to employees of our Manager deemed essential to the success of our securitization business.

The Five Oaks Investment Corp. Manager Equity Plan, or the Manager Equity Plan, includes provisions for grants of restricted common stock and other equity based awards to our Manager and to our independent directors, consultants or officers whom we may directly employ in the future. In turn, our Manager will grant such awards to its employees, officers (including our current officers), members, directors or consultants. Grants to our Manager will be allocated firstly to non-member employees and officers of our Manager, and then the balance of the grants to members (including our officers) proportionally based on each member's respective ownership of our Manager. The grants to be made to our Manager and then by our Manager pursuant to such are intended to provide customary incentive compensation to those persons employed by our Manager on whose performance we rely (including our officers). The total number of shares that may be granted subject to awards under the Manager Equity Plan will be equal to an aggregate of 3.0% of the total number of issued and outstanding shares of our common stock (on a fully diluted basis) at the time of each award (other than any shares issued or subject to awards made pursuant to the Manager Equity Plan). No grants were made under the Manager Equity Plan during the period January 1, 2015 to September 30, 2015.

We had the following contractual borrowing under repurchase agreements related to available-for-sale securities as of September 30, 2015 (dollar amounts in thousands) on both a GAAP basis and non-GAAP basis:

#### GAAP and non GAAP

\$ in thousands	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Repurchase agreements	\$413.3	\$ 413.3	-	-	-
Total contractual obligations	\$413.3	\$ 413.3	-	-	-

We had the following contractual borrowing under repurchase agreements, including warehouse facilities, related to held-for-sale mortgage loans as of September 30, 2015 on both a GAAP basis and non-GAAP basis:

#### GAAP and Non-GAAP

\$ in thousands	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Repurchase agreements	\$52.999	\$ 52.999	-	-	-
Total contractual obligations	\$52.999	\$ 52.999	-	-	-

Additionally, we had \$51.4 million in outstanding secured advances from the FHLBI on a GAAP and non-GAAP basis, with a remaining maturity of less than one year.

In addition, we enter into certain contracts that contain a variety of indemnification obligations, principally with our Manager, brokers and counterparties to repurchase agreements. The maximum potential future payment amount we could be required to pay under these indemnification obligations is unlimited. We have not incurred any costs to defend lawsuits or settle claims related to these indemnification obligations. As a result, the estimated fair value of these agreements is minimal. Accordingly, we recorded no liabilities for these agreements as of September 30, 2015.

#### Off-Balance Sheet Arrangements

As of September 30, 2015, we did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, as of September 30, 2015, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

## **Distributions**

We intend to continue to make regular monthly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its "REIT taxable income" (determined without regard to the deduction for dividends paid and excluding net capital gain) and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its "REIT taxable income." We generally intend to make regular monthly distributions to our stockholders in an amount equal to all or substantially all of our taxable income. As FOAC continues to make progress on the strategic initiatives, we expect FOAC to generate taxable income from holding residential mortgage loans, and subsequently selling them while typically retaining the MSR. This taxable income will be subject to regular corporate income taxes. We generally anticipate the retention of profits generated and taxed at FOAC. Before we make any distribution on our common stock, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements, other debt payable and on our Series A Preferred Stock. If cash available for distribution to our stockholders is less than our taxable income, we could be required to sell assets or borrow funds to make cash distributions, or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

We intend to continue to announce in advance monthly dividends to be paid during each calendar quarter. If substantially all of our taxable income has not been paid by the close of any calendar year, we intend to declare a special dividend prior to the end of such calendar year, to achieve this result. On September 15, 2015, we announced that our board of directors declared monthly cash dividend rates for the fourth quarter of 2015 of \$0.10 per share of common stock.

## **Inflation**

Virtually all of our assets and liabilities will be 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" (determined without regard to the deduction for dividends paid and excluding net capital gain) 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**

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

To reduce the risks to our portfolio, we employ portfolio-wide and security-specific risk measurement and management processes in our daily operations. Our Manager's risk management tools include software and services licensed or purchased from third parties, in addition to proprietary software and analytical methods developed by our Manager. These tools have not fully protected us from market risks, and there can be no assurance that they will do so in the future.

While changes in the fair value of our Agency RMBS are generally not credit-related, changes in the fair value of our Non-Agency RMBS and Multi-Family MBS, including our net investments in consolidated Multi-Family MBS and residential loan securitization trusts, may reflect both market and interest rate conditions as well as credit risk. In evaluating our asset/liability management and Non-Agency RMBS and Multi-Family MBS credit performance, our Manager considers the credit characteristics underlying our Non-Agency RMBS and Multi-Family MBS, including our net investments in consolidated Multi-Family MBS and residential loan securitization trusts. The following table presents certain information about our Agency RMBS, Non-Agency RMBS and Multi-Family MBS (including our net investments in consolidated Multi-Family MBS and residential loan securitization trusts) as of September 30, 2015 on a combined non-GAAP basis. Information presented with respect to weighted average loan to value, weighted average FICO scores and other information is aggregated based on information reported at the time of mortgage origination and therefore does not reflect changes to home values or borrower characteristics since the mortgage origination.

	Non-Agency RMBS(1)	Multi-Family MBS(2)	Agency RMBS
Portfolio Characteristics:			
Number of Securities	28	11	14
Carrying Value/ Estimated Fair Value	\$ 179,870,187	\$ 191,209,068	\$ 227,064,571
Amortized Cost	\$ 186,741,140	\$ 182,674,523	\$ 222,016,743
Current Par Value	\$ 1,051,557,892	\$ 1,241,600,233	\$ 222,488,315
Carrying Value to Current Par	17.7	% 15.4	% 102.1
Amortized Cost to Current Par	18.4	% 14.7	% 99.8
Net Weighted Average Coupon	0.58	% 0.29	% 2.39
3 Month CPR (3)	20.1	NA	9.8

**Non-Agency RMBS Characteristics**

	September 30, 2015(1)			
	Legacy		Prime Jumbo New Issue	
Collateral Attributes:				
Weighted Average Loan Age (months)	110		17	
Weighted Average Original Loan-to-Value	79.6	%	68.1	%
Weighted Average Original FICO (4)	701		766	
Weighted Average Loan Size	387.9		853.8	
Current Performance:				
60+ Day Delinquencies	23.8	%	0.0	%
Average Credit Enhancement (5)	1.7	%	12.4	%

	September 30, 2015(1)		
	Fair Value	% of Non-Agency RMBS	
Coupon Type			
Fixed Rate	\$ 73,361,271	40.8	%
Adjustable Rate	\$ 106,508,916	59.2	%
Collateral Type			
Prime	\$ 73,361,271	40.8	%
Alt-A	\$ 99,310,418	55.2	%
Subprime	\$ 7,198,498	4.0	%
Loan Origination Year			
Post - 2011	\$ 73,361,271	40.8	%
2007	\$ 26,326,984	14.6	%
2006	\$ 80,181,932	44.6	%
Pre -2006	\$ -	0.0	%

(1) Includes our net investment in the JPMMT 2014-OAK4 and CSMC 2014-OAK1 Trusts at September 30, 2015 on a combined, non-GAAP basis.

(2) Includes our net investment in the 2011-K13 and 2012-KF01 Trusts at September 30, 2015 on a combined, non-GAAP basis.

Three-month CPR is reflective of the prepayment speed on the underlying securitization; however, CPR is not necessarily indicative of the proceeds received on our investments. Proceeds received on our RMBS depend on the location of our RMBS within the payment structure of each underlying security.

(4) FICO represents a mortgage industry accepted credit score of a borrower, which was developed by Fair Isaac Corporation.

(5) Average credit enhancement remaining on our Non-Agency RMBS portfolio, which is the average amount of protection available to absorb future credit losses due to defaults on the underlying collateral.

The following table presents the rating of our Non-Agency RMBS at September 30, 2015, including our net investments in consolidated and residential loan securitization trusts, on a combined non-GAAP basis. The rating

indicates the opinion of the rating agency as to the creditworthiness of the investment, indicating the obligor's ability to meet its full financial commitment on the obligation. A rating of "NR" is assigned when major rating agencies do not provide any rating for such security.

Current Rating (3)	Fair Value	% of Non-Agency RMBS	
Rated AAA	\$29,095,765	16.2	%
Rated AA	\$1,985,500	1.1	%
Rated AA-	\$7,729,746	4.3	%
Rated A	\$5,990,649	3.3	%
Rated BBB	\$6,216,252	3.5	%
Rated BB	\$9,469,349	5.3	%
Rated B-	\$818,495	0.5	%
Rated CCC-	\$25,719,658	14.3	%
Rated CC	\$2,813,334	1.6	%
Rated C	\$-	0.0	%
Rated D	\$-	0.0	%
Not Rated	\$90,031,439	50.1	%

(3) Reported based on the lowest rating issued by a rating agency, if more than one rating is issued on the security, at the date presented.

The mortgages securing our Non-Agency RMBS are collateralized by properties located within many geographic regions across the United States. The following table presents the five largest geographic concentrations of the mortgages collateralizing our Non-Agency RMBS, including our net investments in consolidated residential loan securitization trusts, at September 30, 2015 on a combined, non-GAAP basis:

Property Location	Fair Value	% of Non-Agency RMBS	
California	\$71,425,647	39.7	%
Florida	\$12,035,406	6.7	%
Washington	\$10,401,801	5.8	%
New Jersey	\$9,423,834	5.2	%
Massachusetts	\$8,547,603	4.8	%

During the year, we expanded our investments in Multi-Family MBS based on the favorable risk-return profile of these investments. Our Multi-Family MBS investments are primarily Freddie Mac Multifamily K Certificates backed by pools of multifamily mortgage loans or re-REMICs of underlying Freddie Mac Multifamily K Certificates. These certificates are not guaranteed by Freddie Mac and therefore, repayment is based solely on the performance of the underlying pool of loans. These loans have prepayment lock-out provisions which reduce the risk of early repayment of our investment.

The following table presents the rating of our Multi-Family MBS at September 30, 2015, including our net investment in the 2011-K13 and 2012-KF01 Trusts, on a combined non-GAAP basis. The rating indicates the opinion of the rating agency as to the creditworthiness of the investment, indicating the obligor's ability to meet its full financial commitment on the obligation.

Current Rating	Fair Value	% of Multi-Family MBS	
Rated AAA	\$7,139,971	3.7	%
Rated BBB	\$19,709,702	10.3	%
Rated BBB-	\$11,129,419	5.8	%
Rated BB	\$74,791,623	39.1	%
Not Rated	\$78,438,353	41.0	%

Weighted Average Life Breakdown	Fair Value
Less than one year	\$-
Greater than one year and less than five years	\$112,199,269
Greater than or equal to five years	\$485,944,557

### ***Interest rate risk***

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our assets and related financing obligations. Subject to maintaining our qualification as a REIT, we engage in a variety of interest rate management techniques that seek to mitigate the influence of interest rate changes on the values of our assets.

Subject to maintaining our qualification as a REIT, we utilize derivative financial instruments, including interest rate swaps, swaptions, TBAs and futures, to hedge the interest rate and related market risks associated with our portfolio.

We seek to hedge interest rate risk with respect to both the fixed income nature of our assets and the financing of our portfolio. In hedging interest rates with respect to our fixed income assets, we seek to reduce the risk of losses on the value of our investments that may result from changes in interest rates in the broader markets. In utilizing interest rate hedges with respect to our financing, we seek to improve risk-adjusted returns and, where possible, to obtain a favorable spread between the yield on our assets and the cost of our financing. We rely on our Manager's expertise to manage these risks on our behalf.

*Interest rate effect on net interest income*

Our operating results depend in large part on differences between the income earned on our assets and our cost of borrowing and hedging activities. The costs associated with our borrowings are generally based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally will increase while the yields earned on our existing portfolio of leveraged fixed-rate MBS will remain static. Moreover, interest rates may rise at a faster pace than the yields earned on our leveraged adjustable-rate and hybrid MBS. Both of these factors could result in a decline in our net interest spread and net interest margin. The severity of any such decline would depend on our asset/liability composition at the time, as well as the magnitude and duration of the interest rate increase. Further, an increase in short-term interest rates could also have a negative impact on the market value of our target assets. If any of these events happen, we could experience a decrease in net income or incur a net loss during these periods, which could adversely affect our liquidity and results of operations.

Our hedging techniques are partly based on assumed levels of prepayments of our target assets. If prepayments are slower or faster than assumed, the life of the investment will be longer or shorter, which 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.

We acquire adjustable-rate and hybrid MBS. These are assets in which some of the underlying mortgages are typically subject to periodic and lifetime interest rate caps and floors, which may limit the amount by which the security's interest yield may change during any given period. However, our borrowing costs pursuant to our financing agreements are not subject to similar restrictions. Therefore, in a period of increasing interest rates, interest rate costs on our borrowings could increase without limitation, while the interest-rate yields on our adjustable-rate and hybrid MBS could effectively be limited by caps. This issue will be magnified to the extent we acquire adjustable-rate and hybrid MBS that are not based on mortgages that are fully indexed. In addition, adjustable-rate and hybrid MBS may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. If this happens, we could receive less cash income on such assets than we would need to pay for interest costs on our related borrowings. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would harm our financial condition, cash flows and results of operations.

***Interest rate mismatch risk***

We fund the majority of our adjustable-rate and hybrid MBS assets with borrowings that are based on LIBOR, while the interest rates on these assets may be indexed to other index rates, such as the one-year Constant Maturity Treasury index, the Monthly Treasury Average index or the 11th District Cost of Funds Index. Accordingly, any increase in LIBOR relative to these indices may result in an increase in our borrowing costs that is not matched by a corresponding increase in the interest earnings on these assets. Any such interest rate index mismatch could adversely affect our profitability, which may negatively impact distributions to our stockholders. To mitigate interest rate mismatches, we utilize the hedging strategies discussed above.

Our analysis of risks is based on our Manager's experience, estimates, models and assumptions. These analyses rely on models that utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of decisions by our Manager may produce results that differ significantly from the estimates and assumptions used in our models.

We use a variety of recognized industry models, as well as proprietary models, to perform sensitivity analyses, which are derived from primary assumptions for prepayment rates, discount rates and credit losses. The primary assumption used in this model is implied market volatility of interest rates. The information presented in the following interest sensitivity tables projects the potential impact of sudden parallel changes in interest rates on our financial results and financial condition over the next 12 months, based on our interest sensitive financial instruments at September 30, 2015.

September 30, 2015

Change in Interest Rates		Percentage Change in Projected Net Interest Income(1)	Percentage Change in Projected Portfolio Value(2)	
+1.00	%	-19.52	% 0.05	%
+0.50	%	-9.76	% 0.08	%
-0.50	%	10.55	% -0.09	%
-1.00	%	19.77	% 0.09	%

(1)



Includes underlying interest income and interest expense associated with our net investment in the 2011-K13 and 2012-KF01 Trusts.

- (2) Agency RMBS and Multi-Family MBS only. Includes the fair value of our net investment in the FREMF 2011-K13 and 2012-KF01 Trusts.

The interest rate sensitivity table quantifies the potential changes in net interest income and portfolio value, which includes the value of swaps and our other derivatives, should interest rates immediately change. The interest rate sensitivity table presents the estimated impact of interest rates instantaneously rising 50 and 100 basis points and falling 50 and 100 basis points. The cash flows associated with our portfolio of MBS for each rate change are calculated based on assumptions, including prepayment speeds, yield on future acquisitions, slope of the yield curve and size of the portfolio. Assumptions made on the interest rate sensitive liabilities, which are assumed to relate to repurchase agreements, including anticipated interest rates, collateral requirements as a percent of the repurchase agreement, amount and term of borrowing.

The MBS securities, at fair value, included in the foregoing interest rate sensitivity table under "Percentage Change in Projected Portfolio Value" were limited to Agency RMBS and Multi-Family MBS, including the fair value of our net investment in the 2011-K13 and 2012-KF01 Trusts.

Due to the significantly discounted prices and underlying credit risks of our Non-Agency RMBS, we believe our Non-Agency RMBS's valuation is inherently de-sensitized to changes in interest rates. As such, we cannot project the impact to these financial instruments and have excluded these RMBS from the interest rate sensitivity analysis. However, these Non-Agency RMBS have been included in the "Percentage Change in Projected Net Interest Income" analysis.

Certain assumptions have been made in connection with the calculation of the information set forth in the foregoing interest rate sensitivity table and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. The base interest rate scenario assumes interest rates at September 30, 2015. The analysis utilizes assumptions and estimates based on the judgment and experience of our Manager's team. Furthermore, while we generally expect to retain such assets and the associated interest rate risk to maturity, future purchases and sales of assets could materially change our interest rate risk profile.

The change in annualized net interest income does not include any benefit or detriment from faster or slower prepayment rates on our Agency RMBS, Non-Agency RMBS and Multi-Family MBS. We anticipate that faster prepayment speeds in lower interest rate scenarios will generate lower realized yields on premium Agency RMBS and higher realized yields on discount Agency and Non-Agency RMBS. Similarly, we anticipate that slower prepayment speeds in higher interest rate scenarios will generate higher realized yields on premium Agency RMBS and lower realized yields on discount Agency and Non-Agency RMBS. Although we have sought to construct our portfolio to limit the effect of changes in prepayment speeds, there can be no assurance this will actually occur, and the realized yield of our portfolio may be significantly different than we anticipate in changing interest rate scenarios.

Given the low interest rates at September 30, 2015, we applied a floor of 0% for all anticipated interest rates included in our assumptions. Because of this floor, we anticipate that any hypothetical interest rate shock decrease would have a limited positive impact on our funding costs; however, because prepayments speeds are unaffected by this floor, we expect that any increase in our prepayment speeds (occurring as a result of any interest rate decrease or otherwise) could result in an acceleration of our premium amortization on Agency RMBS and accretion of discount on our Agency and Non-Agency RMBS purchased at a discount. As a result, because this floor limits the positive impact of any interest rate decrease on our funding costs, hypothetical interest rate decreases could cause the fair value of our financial instruments and our net interest income to decline.

The information set forth in the interest rate sensitivity table and all related disclosures constitutes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Actual results could differ significantly from those estimated in the foregoing interest rate sensitivity table.

### ***Prepayment risk***

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

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

***Extension risk***

We compute the projected weighted-average life of our investments based upon assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. In general, when a fixed-rate or hybrid adjustable-rate security is acquired with borrowings, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that effectively fixes our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related assets. This strategy is designed to protect us from rising interest rates, because the borrowing costs are fixed for the duration of the fixed-rate portion of the related target asset.

However, if prepayment rates decrease in a rising interest rate environment, then the life of the fixed-rate portion of the related assets could extend beyond the term of the swap agreement or other hedging instrument. This could have a negative impact on our results from operations, as borrowing costs would no longer be fixed after the end of the hedging instrument, while the income earned on the fixed-rate or hybrid adjustable-rate assets would remain fixed. This situation could also cause the market value of our fixed-rate or hybrid adjustable-rate assets to decline, with little or no offsetting gain from the related hedging transactions. In extreme situations, we could be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

***Market risk***

*Market value risk.* Our AFS securities are reflected at their estimated fair value, with the difference between amortized cost and estimated fair value reflected in accumulated other comprehensive income. The estimated fair value of these securities fluctuates primarily due to changes in interest rates, market valuation of credit risks and other factors. Generally, in a rising interest rate environment, we would expect the fair value of these securities to decrease; conversely, in a decreasing interest rate environment, we would expect the fair value of these securities to increase. As market volatility increases or liquidity decreases, the fair value of our assets may be adversely impacted.

The sensitivity analysis table presented in "-Interest rate mismatch risk" sets forth the estimated impact of an instantaneous parallel shift in the yield curve, up and down 50 and 100 basis points, on the market value of our interest rate-sensitive investments and net interest income, at September 30, 2015, assuming a static portfolio. When evaluating the impact of changes in interest rates, prepayment assumptions and principal reinvestment rates are adjusted based on our Manager's expectations. The analysis presented utilized assumptions, models and estimates of our Manager based on the judgment and experience of our Manager's team.

*Real estate risk.* MBS, residential and multi-family property values are subject to volatility and may be adversely affected by a number of factors, including national, regional and local economic conditions; local real estate conditions (such as an oversupply of housing); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values reduce the value of the collateral for mortgage loans and the potential proceeds available to borrowers to repay the loans, which could cause us to suffer losses on our Non-Agency RMBS and Multi-Family MBS investments.

*Liquidity risk*

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

Should the value of our assets pledged as collateral suddenly decrease, margin calls relating to our repurchase agreements could increase, causing an adverse change in our liquidity position. Additionally, if one or more of our repurchase agreement counterparties chose not to provide on-going funding, our ability to finance would decline or exist at possibly less advantageous terms. As such, we cannot assure that we will always be able to roll over our repurchase agreements. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for further information about our liquidity and capital resource management.

*Credit risk*

We believe that our investment strategy will generally keep our risk of credit losses low to moderate. However, we retain the risk of potential credit losses on all of the loans underlying our Non-Agency RMBS and Multi-Family MBS, as well as residential mortgage loans that we own. With respect to our Non-Agency RMBS that are senior in the credit structure, credit support contained in RMBS deal structures provides a level of protection from losses. We seek to manage the remaining credit risk through our pre-acquisition due diligence process and by factoring assumed credit losses into the purchase prices we pay for Non-Agency RMBS. In addition, with respect to any particular target asset, our Manager's investment team evaluates relative valuation, supply and demand trends, shape of yield curves, prepayment rates, delinquency and default rates, recovery of various sectors and vintage of collateral. In particular, the evaluation process involves modeling under various different scenarios the future cash flows expected to be generated by a specific security based on the current and projected delinquency and default status of the portfolio, and expected recoveries derived primarily from LTV metrics, relative to the purchase price of the RMBS. At purchase, our Manager estimates the proportion of the discount that we do not expect to recover and incorporates it into our Manager's expected yield and accretion calculations. As part of our Non-Agency RMBS surveillance process, our Manager

tracks and compares each security's actual performance over time to the performance expected at the time of purchase or, if our Manager has modified its original purchase assumptions, to its revised performance expectations. To the extent that actual performance of our Non-Agency RMBS deviates materially from our Manager's expected performance parameters, our Manager may revise its performance expectations, such that the amount of purchase discount designated as credit discount may be increased or decreased over time. At times, we may enter into credit default swaps or other derivative instruments in an attempt to manage our credit risk. Nevertheless, unanticipated credit losses could adversely affect our operating results. With respect to our Multi-Family MBS, to date we have purchased subordinated tranches in, or backed by, multi-family securitizations sponsored by Freddie Mac that do not represent the most junior tranche in the capital structure. Our pre-acquisition due diligence process involves an analysis of the multi-family loan portfolio underlying the relevant security, in order to determine the adequacy of available credit enhancement to absorb potential credit losses on the portfolio.

### ***Risk Management***

To the extent consistent with maintaining our REIT qualification, we will seek to manage risk exposure to protect our investment portfolio against the effects of major interest rate changes. We may generally seek to manage this risk by:

- relying on our Manager's investment selection process;

- monitoring and adjusting, if necessary, the reset index and interest rate related to Agency and Non-Agency RMBS and other mortgage-related investments and our financings;

- attempting to structure our financing agreements to have a range of different maturities, terms, amortizations and interest rate adjustment periods;

- using hedging instruments, primarily interest rate swap agreements but also financial futures, options, interest rate cap agreements, floors and forward sales to adjust the interest rate sensitivity of Agency RMBS and other mortgage-related investments and our borrowings; and

- actively managing, on an aggregate basis, the interest rate indices, interest rate adjustment periods and gross reset margins of Agency RMBS and other mortgage-related investments and the interest rate indices and adjustment periods of our financings.

In executing on our current risk management strategy, we have entered into interest rate swap agreements, a swaption and futures transactions.

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

##### **Evaluation of Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information the Company is required to disclose in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that the Company's management, including its principal executive officer and principal financial officer, as appropriate, allow timely decisions regarding required disclosure.

We have evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of September 30, 2015, which have been designed to provide reasonable assurance of achieving their control objectives. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

##### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the period from January 1, 2015 through September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of the date hereof, neither we nor, to our knowledge, our Manager are subject to any legal proceedings that we or our Manager considers to be material.

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.

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

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The exhibits listed on the accompanying Index of Exhibits are filed or incorporated by reference as a part of this report. Such Index is incorporated herein by reference.



## **SIGNATURES**

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

### **FIVE OAKS INVESTMENT CORP.**

Dated: November 9, 2015 By/s/ David C. Carroll  
David C. Carroll  
Chief Executive Officer, President and  
Chairman of the Board (Principal  
Executive Officer)

Dated: November 9, 2015 By/s/ David Oston  
David Oston  
Chief Financial Officer, Treasurer,  
Secretary and Director (Principal  
Financial Officer and Principal  
Accounting Officer)

## EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\*Filed herewith