

Great Ajax Corp.
Form S-11/A
April 13, 2015

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As filed with the Securities and Exchange Commission on April 10, 2015
Registration No. 333-203048

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 1
to
Form S-11
FOR REGISTRATION
UNDER
THE SECURITIES ACT OF 1933
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

GREAT AJAX CORP.
(Exact Name of Registrant as Specified in its Governing Instruments)

9400 SW Beaverton-Hillsdale Hwy, Suite 131
Beaverton, OR 97005
503-505-5670
(Address, Including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

Lawrence Mendelsohn
Chairman and Chief Executive Officer
9400 SW Beaverton-Hillsdale Hwy, Suite 131
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503-505-5670
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box:

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common stock, \$0.01 par value per share	10,445,784	\$ 14.55	\$ 151,986,157.20	\$ 17,660.79

(1)

Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933, as amended on the basis of the average high and low sales prices as reported on the New York Stock Exchange on April 8, 2015.

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

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

PROSPECTUS

SUBJECT TO COMPLETION, April 10, 2015

10,445,784 Shares of Common Stock

This prospectus relates solely to the resale of up to an aggregate of 10,445,784 shares of our common stock by the selling stockholders named in this prospectus. We will not receive any of the proceeds from the sale of those shares. We have agreed to pay all expenses relating to registration of the shares. The selling stockholders will pay any brokerage commissions or other similar charges incurred for the sale of their shares.

The selling stockholders may offer the shares from time to time as they may determine through public or private transactions or through other means described under “Plan of Distribution” of prevailing market prices, at prices different than prevailing market prices or at privately negotiated prices.

Our common stock is listed on the New York Stock Exchange or the NYSE, under the symbol “AJX.” On April 9, 2015, the last reported sales price of our common stock was \$14.71 per share.

We are an externally managed real estate company. We focus primarily on acquiring, investing in and managing a portfolio of mortgage loans secured by single-family residences and, to a lesser extent, single-family properties. We also invest in loans secured by smaller multi-family residential and commercial mixed use retail/residential properties, as well as in the properties directly. Our manager is Thetis Asset Management LLC, an affiliated entity. We own 19.8% of our Manager.

We expect to qualify and will elect to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, for the year ended December 31, 2014. As a REIT, we generally will not be subject to U.S. federal income tax to the extent that we distribute our REIT taxable income currently to our stockholders, but the taxable income generated by our taxable REIT subsidiaries will be subject to regular corporate income tax. To assist us in qualifying as a REIT, among other purposes, ownership of our common stock by any person is generally limited to 9.8% of our outstanding common stock. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock. See “Description of Capital Stock—Restrictions on Ownership and Transfer.”

We are an “emerging growth company” under the Jumpstart Our Business Startups Act and will be subject to reduced public company reporting requirements.

Investing in our common stock involves risks. See “Risk Factors” beginning on page 21.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2015

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You should rely only on the information contained in this prospectus and any supplement hereto. We and the selling stockholders have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus and any supplement hereto. If anyone provides you with different or inconsistent information, you should not rely on it. We and the selling stockholders are not making an offer to sell, or a solicitation of an offer to buy, any securities in any jurisdiction where it is unlawful to do so. You should assume that the information in this prospectus and any supplement hereto is accurate as of the respective dates of such documents or as of the date or dates that are specified herein or therein. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

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MARKET, INDUSTRY AND OTHER DATA

In this prospectus,

- “non-performing loan” means a loan on which the most recent three payments have not been made;
- “re-performing loan” means a loan on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount to cover at least five payments has been paid in the last seven months.

Unless otherwise indicated, information contained in this prospectus concerning the re-performing and non-performing residential mortgage loan markets, the smaller multi-family residential and commercial mixed use real estate markets, the housing market generally and the markets in which we operate, including our general expectations, market opportunity and market size, is based on information from various sources, on assumptions that we have made that are based on those data and other similar sources and on our knowledge of those markets. These data involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. While we believe our market opportunity and market size information included in this prospectus is generally reliable, such information is inherently imprecise.

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SUMMARY

This is only a summary and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus, including “Risk Factors” appearing elsewhere in this prospectus, before deciding to invest in our common stock. In this prospectus, unless the context indicates otherwise, references to “Great Ajax,” “we,” “the company,” “our” and “us” refer to the activities of and the assets and liabilities of the business and operations of Great Ajax Corp.; “operating partnership” refers to Great Ajax Operating Partnership L.P., a Delaware limited partnership; “our Manager” refers to Thetis Asset Management LLC, a Delaware limited liability company; “Aspen” refers to Aspen Yo LLC, an Oregon limited liability company that is part of the Aspen Capital group; and “the Servicer” and “Gregory” refer to Gregory Funding LLC, an Oregon limited liability company and an indirect subsidiary of Aspen.

Overview

Great Ajax Corp. focuses primarily on acquiring, investing in and managing a portfolio of re-performing and non-performing mortgage loans secured by single-family residences and, to a lesser extent, of single-family properties themselves. We also invest in loans secured by multi-family residential and commercial mixed use retail/residential properties, as well as in the properties directly. The multi-family and commercial mixed-use properties generally have loan values of up to approximately \$5 million. We refer to these as “smaller commercial properties.”

We were formed in January 2014 as a Maryland corporation. On July 8, 2014, we closed a private offering of shares of our common stock and limited partnership units of our operating partnership, or OP Units. We commenced operations on July 8, 2014. On August 1, 2014, we closed the sale of additional shares of our common stock and OP Units pursuant to the exercise of the additional allotment option we granted to the initial purchaser and placement agent in connection with the July placement and we refer to these closings as the Original Private Placement. In December 2014, we closed an additional private placement of shares of our common stock and OP Units. In these offerings, which we refer to collectively as the Private Placements, we raised net proceeds of approximately \$169.6 million. Through January 31, 2015, we have acquired mortgage loans and other mortgage-related assets with an aggregate unpaid principal balance, or UPB, of \$321.1 million.

We completed our IPO in February and March 2015 and sold an aggregate of 3,976,464 shares of common stock, including shares sold pursuant to exercise of the underwriters’ over-allotment option, at a public offering price of \$14.25 per share. We are using the approximately \$53.9 million of net proceeds (after deducting the underwriting discount but before deducting estimated offering expenses) to acquire additional mortgage loans and mortgage-related assets. Selling stockholders also sold an aggregate of 1,300,333 shares of our common stock in the IPO, including shares sold pursuant to exercise of the underwriters’ over-allotment option.

Our primary strategy is to acquire, own and manage re-performing and non-performing mortgage loans, which are serviced by Gregory Funding LLC, our affiliated servicer. We seek to acquire loans at significant discounts to our estimates of the value of the underlying real estate and of the UPB of the loan. Unlike other loan acquirers, who often rely on pooled estimates in analyzing and pricing portfolios, our Manager uses proprietary models and data developed by its affiliates to evaluate individual assets and to help determine cities, neighborhoods and properties that it believes will experience home price appreciation, or HPA. These proprietary analytics have inputs for economic and demographic data that include changes in unemployment rates, median household incomes, housing starts, crime rates, education, electoral participation and other variables that we believe closely correlate to property values. The proprietary models predict probabilistic future cash flows for each loan we seek to acquire. Factors affecting our cash flow projections include resolution method, resolution timeline, foreclosure costs, rehabilitation costs and eviction costs. The database for these proprietary models contains foreclosure timelines on an individual county basis and, in some instances, also on an individual judge basis. We believe that these proprietary models permit us to acquire loans at prices we and the Manager believe represent a discount to UPB and current property values in non-auction purchases.

We generally securitize our mortgage loans and retain subordinated securities from our securitizations. We also hold “real estate-owned” properties, or REO, acquired upon the foreclosure or other settlement of

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our owned non-performing loans. We anticipate our REO will consist principally of single-family homes, although we also may own smaller commercial properties. Our resolution methods are tailored to each loan, based on our Servicer's detailed analytics, and include, among others, loan modification, forbearance agreements, foreclosure, short sale and deed-in-lieu of foreclosure. In the event of foreclosure, our Manager determines, in part based on the information obtained from the Servicer regarding historical experience, whether to seek to sell any REO asset, including offering mortgage financing to the purchaser, or to hold the REO and manage it as a rental property. We may conduct some of these activities through a taxable REIT subsidiary, or TRS. As part of our integrated approach, in connection with its loan servicing activities the Servicer focuses on understanding each borrower's situation and working closely with the borrower to determine the most appropriate resolution for both parties. We believe that purchasing re-performing and non-performing mortgage loans at significant discounts to UPB and underlying property values, as well as working, through Gregory, to support continuing or new payments by borrowers, will allow us to achieve our targeted returns. However, if actual results differ from our assumptions, particularly if the value of the underlying properties were to decrease significantly, we may not achieve our targeted returns.

We are externally managed by Thetis Asset Management LLC, an affiliated entity. Our mortgage loans and other real estate assets are serviced by Gregory Funding LLC, an affiliated entity. We own a 19.8% equity interest in our Manager. In addition, our Manager and the Servicer own an aggregate of 373,168 shares of our common stock. We believe that these ownership interests, combined with our paying 50% of the base management fee to our Manager in shares of our common stock, align our Manager's interests with our interests and those of our stockholders.

Aspen and Gregory, and their subsidiaries and affiliates, have more than 15 years of experience in originating loans, and in acquiring, servicing, financing and managing re-performing and non-performing loans, as well as in direct property management. Consistent with Aspen's past residential asset acquisitions and our recent operations, we believe that we will be able to purchase loans through privately negotiated transactions rather than in the auction market.

Since January 1, 2012 through December 31, 2014, over 90% of Aspen's acquisitions have been through privately negotiated transactions. Our Manager's team also has experience in financing residential mortgage loan purchases through securitizations, having successfully completed five securitization transactions with a total initial UPB of \$360.6 million since January 2013, including our two recent securitizations totaling \$172.9 million of UPB. Gregory was built by the members of our Manager's management team to service "high-touch" assets, which are loans that require substantial and active interaction with the borrower for modification or other resolution. Gregory, or its wholly owned subsidiary, is licensed to service loans in all states in which it does business and has unsupervised Title II Mortgagee authorization from the Federal Housing Administration, or FHA. Gregory, or its wholly owned subsidiary, is also a licensed mortgage lender in 23 states, and currently has mortgage loan origination staff who are licensed in 11 of those states. Gregory also has a joint marketing relationship with a federal savings bank in which Aspen holds a minority interest. These resources allow Gregory to facilitate third party mortgage financing, which we then can acquire, to many of the purchasers of REO that we sell in such states with no or minimal additional cost to us. As of December 31, 2014, Gregory, for us, for its own account and for affiliated entities comprised primarily of third-party investors, serviced a portfolio of residential and commercial mortgage loans and REO throughout the United States with UPB and REO principal balance of approximately \$627.5 million.

For additional information about Aspen and Gregory, see "Business—The Aspen Capital Companies."

Market Opportunity

The U.S. Federal Reserve estimates that as of December 31, 2014, there was approximately \$9.9 trillion of mortgage loans outstanding on U.S. one-to-four family residential properties and approximately \$994.1 billion of mortgage loans outstanding on U.S. multi-family residential properties.

We expect the availability of pools of re-performing and non-performing loans, properties in foreclosure and REO to increase and remain elevated over the next several years. Overall housing values have rebounded since 2012.

However, CoreLogic®, a leading global property information, analytics and data-enabled services provider, reports that approximately 5.4 million homes, or 10.8% of all residential

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properties with a mortgage, were in a negative equity position as of the end of the fourth quarter of 2014. For the homes in negative equity status, the national aggregate value of negative equity was \$349 billion at the end of the fourth quarter of 2014, up \$7 billion from approximately \$342 billion at the end of the third quarter of 2014. In addition, a portion of the 800,000 borrowers with low interest rates under the Home Affordable Modification Program, or HAMP, for the past five years began seeing mortgage payment increases in 2014. Under the HAMP guidelines, their interest rates will increase by one percentage point each year until their rate equals the average 30-year, fixed-rate mortgage rate at the time of modification. 11% of HAMP borrowers have already missed at least one payment, and we believe that wages and home prices have not improved enough for many of these borrowers to afford the monthly payment increase. In June, September and November 2014, the FHA held note sales under the Distressed Asset Stabilization Program of 2014, or DASP, as part of a broad effort by the FHA to decrease losses and market and sell non-performing loans in bulk. Further such sales are expected. In addition, in July 2014 and March 2015, the Federal Home Loan Mortgage Corporation, or Freddie Mac, sold \$659 million and \$392 million, respectively, of non-performing loans. Both Freddie Mac and the Federal National Mortgage Association, or Fannie Mae, have indicated that they will have ongoing non-performing loan sales programs going forward. We also believe that banks and other mortgage lenders have strengthened their capital bases and are more aggressively foreclosing on delinquent borrowers or selling these loans to dispose of their inventory. Additionally, many non-performing loan buyers are now interested in reducing their investment duration and have begun selling re-performing loans.

According to the U.S. Department of Housing and Urban Development's National Housing Market Summary for the fourth quarter of 2014, while housing starts increased in 2014 over 2013, the number of building permits issued in the fourth quarter of 2014 indicates that starts may be leveling off for single-family homes (an increase of 3% compared to the third quarter). Although construction starts on single-family homes were up 8% from the previous quarter and up 6% from the fourth quarter of 2013, they remain significantly below historical levels. In addition to the leveling of housing starts, a persistent price gap exists between newly built homes and existing homes with sales of existing homes showing improvements while sales of new homes continued to lag in the third quarter of 2014.

New regulatory requirements, including the "ability to repay," or ATR, rule implemented by the Consumer Financial Protection Bureau, or CFPB, which provides for a category of "qualified mortgage," or QM, the limited availability of financing available for originators of non-federally guaranteed mortgages and other factors have also resulted in a significant number of families that cannot qualify to obtain new residential mortgage loans. We believe new federal regulations addressing QMs based on, among other factors, employment status, debt-to-income level, and impaired credit history or lack of savings, will continue to limit mortgage loan availability from traditional mortgage lenders. In addition, we believe that many homeowners displaced by foreclosure or who either cannot afford to own or cannot be approved for a mortgage will prefer to live in single-family rental properties with similar characteristics and amenities to owned homes, as well as smaller multi-family residential properties. In certain demographic areas, new households are being formed at a rate that exceeds the new homes being added to the market, which we believe favors future demand for non-federally guaranteed mortgage financing for single-family and smaller multi-family rental properties. For all of these reasons, we believe that demand for single-family and smaller multi-family rental properties will increase in the near term and remain at heightened levels for the foreseeable future.

Our Strategy

We are continuing the opportunistic strategy developed by our Manager's management team at Aspen in a REIT structure that we believe provides us access to capital and allows us to compete for more significant investment opportunities in the evolving mortgage markets. This strategy enables us to generate attractive current yields and risk-adjusted total returns for our stockholders. We intend to distribute substantially all of our REIT taxable income to our stockholders in accordance with applicable REIT qualification requirements. Our strategy consists of:

- focusing our investments primarily in loans secured by single-family residences with opportunistic mortgages or direct investment in smaller commercial properties, such as smaller mixed-use commercial facilities with ground floor retail units and residences above them;

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- constructing and owning a portfolio of re-performing and non-performing mortgage loans at significant discounts to UPB and underlying property values;
- concentrating our investments in geographic areas, cities and neighborhoods with certain demographic and economic trends and attributes that we believe will lead to HPA above the national average;
- working, through Gregory, to (1) support the continued performance of re-performing loans; (2) convert a portion of our non-performing loans to re-performing status; (3) determine optimal loss mitigation strategy on an asset-by-asset basis for remaining loans; and (4) manage the process and timelines for converting non-performing loans to sale or rental REO, including potentially offering financing to REO purchasers;
- when economically efficient, securitizing our re-performing whole loan portfolios to create long-term, fixed rate, non-recourse financing, while retaining one or more tranches of any subordinated securities we may create; and
- opportunistically mitigating our interest rate and prepayment risk by using a variety of hedging instruments.

Based on the experience of our Manager's management team, we believe that acquiring re-performing and non-performing mortgage loans will result in a more efficient way to achieve strong risk-adjusted returns and provide us a material cost advantage over other real property acquisition channels, such as foreclosure auctions and REO acquisitions. For non-performing loans, we forecast the relative likelihood of each resolution method—foreclosure, deed-in-lieu of foreclosure, short sale and rental. For re-performing and performing pool acquisitions, we analyze each loan for re-default probability, loan-to-value ratio, interest rate and structure of the loan and the likely resolution method in the event the loan stops performing. Each re-performing loan is analyzed through both a performing and non-performing path. For loan pool acquisitions, we target a 10–18% unlevered return, which does not give effect to any borrowings. Our ability to achieve our targeted return could be adversely affected if we were to experience higher-than-anticipated delinquency or default rates or decreases in the value of the underlying real property. We price each loan portfolio on a loan-by-loan basis and focus on the acquisition of loans with the underlying property located in or in close proximity to urban centers where we believe that the HPA will outpace the national market. While we expect to purchase loans nationwide, we target urban centers (including densely populated suburbs with the appropriate characteristics) because we believe that an increasing number of families and young professionals prefer to live in areas close to employment centers, public transportation and retail and other amenities that are typically more common in such areas, which provides greater potential for HPA. By focusing on urban centers and targeted densely populated suburbs, we should be able to more efficiently manage our portfolio and scale our high-touch loan servicing platform. Our current target markets include, but are not limited to, Phoenix, Arizona; Los Angeles and San Diego, California; Miami, Ft. Lauderdale, West Palm Beach, Orlando and Tampa, Florida; Atlanta, Georgia; Chicago, Illinois; New York and New Jersey metropolitan area; Dallas and Houston, Texas; and Maryland and Virginia near Washington, D.C. Gregory has also contracted with local experts in areas where it services a significant number of loans that provide local area market intelligence, monitor properties and can manage rehabilitation projects for REO or repairs for rental properties. We believe having affiliated local experts and a centralized management team leads to more informed decision-making and better execution.

Our Competitive Strengths

We believe our Manager's and the Servicer's integrated platform, which allows us to acquire, finance, hold and, through our Manager and the Servicer, manage and service whole loans and the REO that results from foreclosure on non-performing mortgage loans without reliance on third-party servicers, positions us well to respond opportunistically in a variety of market environments. We believe the following competitive strengths differentiate us

from our competitors:

-

Flexible and Adaptable Resolution Strategy—The past nearly ten years of market volatility has given our management team the experience, backed by Gregory’s extensive integrated loan

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servicing and real estate management platform, to assess and respond to changes in our targeted real estate markets to optimize the return to our stockholders. We use a variety of asset optimization strategies including loan modifications, forbearance agreements and property sale, rental or lease options to maximize the value of our ownership of re-performing loans, non-performing loans and the REO we obtain from foreclosure based on our assessment of the optimal return.

- **Strong Sourcing Relationships**—Our Manager, the Servicer and their affiliates have extensive networks for sourcing investment opportunities through relationships with money center, regional, and community banks as well as large and small private mortgage loan owners and servicers throughout the country. These networks and relationships provide us with opportunities to acquire our targeted assets in negotiated transactions rather than through auctions and often in pools specifically carved out for our primary geographic investment priorities. From January 1, 2012 through December 31, 2014, Aspen and its affiliates acquired loans, including the 1,340 loans we owned as of December 31, 2014, totaling approximately \$661.3 million total UPB, consisting of 3,063 mortgage loans in 124 separate transactions, with the underlying real estate located throughout the United States. Over 90% of such acquisitions were purchased through privately negotiated transactions rather than auctions. The average purchase price was 70.7% of UPB and 70.2% of property value for re-performing loans, and 52.2% of UPB and 57.5% of property value for non-performing loans.

- **Affiliated Servicer with Extensive Integrated Mortgage Loan Servicing and Real Estate Management Platform**—The Servicer was built specifically to maximize value in the types of “high-touch” assets that we expect to acquire. The Servicer has approximately 50 experienced mortgage servicing and real estate management personnel throughout the country. Its proprietary software platform was developed in-house specifically to handle distressed and re-performing mortgage loans and it enables the servicing representatives to have all necessary tools and information available to resolve borrower interaction efficiently and effectively. The Servicer has eight full-time software development personnel ensuring the quality and reliability of these proprietary analytics and models. The Servicer is focused on understanding the specific situation of each borrower so that our Manager will be informed and able to tailor an appropriate resolution for both parties. The Servicer’s personnel also have many years of experience managing REO throughout the country and maintaining compliance with ever-changing regulatory requirements.

- **Customized Loan Origination and Underwriting**—When we determine to sell a particular REO asset through our Servicer, we have the capability in certain states to underwrite and offer mortgage financing to the purchaser. We rely on Gregory’s in-depth knowledge of the properties when we facilitate financing in connection with a sale of a property through an unaffiliated lender. Unlike more traditional lenders, which base their underwriting primarily on the FICO® credit risk score, Gregory focuses on the borrower’s cash flow and residual income after satisfaction of monthly requirements, including the expenses for any dependents, employment stability and the ability to make a cash down payment. We may choose to purchase the loan. We believe that our ability to offer financing tailored to the particular borrower provides another tool to maximize our return by converting REO to long-term significant net yield generating assets.

- **Significant Experience of Our Manager**—Each executive on our Manager’s team has more than 20 years’ experience investing in, analyzing, performing due diligence, originating, restructuring, servicing, managing and/or marketing mortgage loan portfolios and securitizations. Our Manager is supported by approximately eight mortgage and servicing professionals at the Servicer. We believe our Manager and its resources provide a significant advantage to us, contribute to the strength of our business, and enhance the quantity and quality of investment opportunities available to us.

Our Manager's Interests are Closely Aligned with Our and Our Stockholders' Interests—We own 19.8% of the voting and economic interests in our Manager, and we pay 50% of the base management fee to our Manager in shares of our common stock with the value based on the

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higher of the most recently reported book value or market value of our common stock. Our incentive fee is based on cash dividends from taxable earnings in excess of an 8.0% hurdle rate. We believe our structure aligns our Manager's interests with our interests and creates incentives for our Manager to seek to maximize value for our stockholders. In addition, our Manager and the Servicer own an aggregate of 373,168 shares of our common stock and their institutional equity owners or their affiliates own an aggregate of 4,882,353 shares of our common stock (assuming redemption of 624,106 OP Units purchased by one such investor on a 1-for-1 basis into shares of our common stock). Our Portfolio

As of January 31, 2015, our portfolio of mortgage-related assets consisted of the following:

Portfolio as of January 31, 2015

No. of Loans(1)	1,449
Total UPB	\$321,133,153
Interest-Bearing Balance	\$299,932,870
Deferred Balance(2)	\$21,200,284
Market Value of Collateral(3)	\$332,302,084
Price/Total UPB(3)	69.9%
Price/Market Value of Collateral	67.7%
Weighted Average Coupon(4)	5.06%
Weighted Average LTV(5)	114%
Remaining Term (as of 1/31/2015)	295.5
No. of first liens	1,434
No. of second liens	15
No. of Rental Properties	3
Market Value of Collateral	\$366,900
Capital Invested	289,954
Price/Market Value of Collateral	79.0%
Gross Rent/Month	\$3,800
Other REO	18
Market Value of Collateral(1)	\$3,009,500

(1)

Information reflects 1 loan in which we hold a 40.5% beneficial interest through an equity method investee, 24 loans in which we have a 95% participation interest and are owned by the Servicer because neither we nor our subsidiaries have the necessary licenses in certain states and 39 loans that closed in February 2015 with a total UPB of \$8.62 million.

(2)

Amounts that have been deferred in connection with a loan modification on which interest does not accrue. These amounts generally become payable at the time of maturity.

(3)

As of date of acquisition.

(4)

Our loan portfolio consists of fixed rate (53.8% of UPB), ARM (28.8% of UPB) and Hybrid ARM (17.4% of UPB) mortgage loans with original terms to maturity of not more than 40 years.

(5)

UPB as of January 31, 2015 divided by market value of collateral as of date of acquisition.

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We closely monitor the status of our mortgage loans and through our Servicer, work with our borrowers to improve their payment records. The following chart shows the percentages of our portfolio, based on total price paid, represented by non-performing loans and re-performing loans at January 31, 2015.

Potential Acquisition Opportunities

Our Manager and its affiliates are regularly presented with opportunities to acquire loan pools and other mortgage assets. As of March 23, 2015, our Manager identified and was actively evaluating 12 potential loan pool acquisitions that our Manager has determined, after a preliminary evaluation, fall within our investment strategy. These loan pools have a total UPB of approximately \$68.1 million, of which 76.5% of the UPB comprises re-performing loans and 23.5% of the UPB comprises non-performing loans. We have not entered into a definitive agreement with respect to any of these loan pools, and there is no assurance that we will enter into a definitive agreement relating to any of these loan pools or any loans in a loan pool or, if such an agreement is executed, that we will actually close the acquisition. In addition, we expect a continuous flow of potential re-performing loan acquisition opportunities from participants in the ongoing non-performing loan sales programs held by the FHA, Fannie Mae and Freddie Mac. We believe purchasers of these loan pools will be interested in recognizing short-term gains and greater liquidity by selling re-performing loans from those pools. In addition, our Manager and its affiliates provide multiple potential bidders with pricing information for specific subsets of those non-performing pools, which provides those bidders with better pricing and gives us indirect access to those loan pool subsets if any of those bidders are successful.

For additional information, see “Business—Our Portfolio.”

Formation

We were incorporated in Maryland on January 30, 2014 and commenced operations following completion of the Original Private Placement. We conduct substantially all of our business through our operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership, and its subsidiaries. We, through a wholly owned subsidiary, are the sole general partner of our operating partnership. GA-TRS LLC, or Thetis TRS, is a wholly owned subsidiary of our operating partnership that owns our 19.8% equity interest in our Manager, and we have elected to treat Thetis TRS as a TRS under the Code. We may also form additional TRS entities depending on our future business activities and the most effective tax strategy for such activities. In September 2014, we also formed Great Ajax Funding LLC, a wholly owned subsidiary of our operating partnership, to act as the depositor of our mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts.

On July 8, 2014, we sold 8,213,116 shares of our common stock and 453,551 OP Units. On August 1, 2014, we closed the sale of an additional 263,570 shares of our common stock and 14,555 OP Units pursuant to the exercise of the additional allotment option we granted to the initial purchaser and placement agent in connection with the July placement. The purchase price per share was \$15.00. The net proceeds from the Original Private Placement, including the additional allotment option shares and OP Units, after deducting the initial purchaser’s discount and placement fee and offering expenses paid by us, was approximately \$128.4 million. On December 16, 2014, we closed an additional private placement

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pursuant to which we sold 2,725,326 shares of common stock and 156,000 OP Units, which we refer to as the Second Private Placement. The purchase price per share was \$15.00. The net proceeds from the Second Private Placement after deducting the placement fee and offering expenses paid by us, was approximately \$41.2 million. We refer to the Original Private Placement and the Second Private Placement as the Private Placements.

We completed our IPO in February and March 2015 and sold an aggregate of 3,976,464 shares of common stock, including shares sold pursuant to exercise of the underwriters' over-allotment option, at a public offering price of \$14.25 per share. The selling stockholders sold an aggregate of 1,300,333 shares of common stock, including shares sold pursuant to exercise of the underwriters' over-allotment option. Certain of our existing stockholders, including certain affiliates, purchased an aggregate of 730,000 shares of our common stock in the IPO at the initial public offering price.

In the Original Private Placement, Flexpoint Great Ajax Holdings LLC, or the Flexpoint REIT Investor, an affiliate of an investment fund managed by Flexpoint Ford LLC, and an investment fund for which Wellington Management Company LLP is the investment advisor, or the Wellington Management Institutional Investor, each directly or through one or more affiliated entities purchased (i) an aggregate of 3,290,726 shares of our common stock (in the case of the Wellington Management Institutional Investor, assuming redemption of 468,106 OP Units on a 1-for-1 basis into shares of our common stock); (ii) 9.8% of the equity of Great Ajax FS LLC ("GA-FS"), the parent of the Servicer (4.9% of which was represented by a note that converted automatically into shares in September 2014); (iii) two non-transferable ten-year warrants, which permit each holder to acquire an additional 9.9% equity interest in GA-FS at a premium to the original purchase price, exercisable subject to certain regulatory requirements or in the event of a contemporaneous sale of the equity interests of GA-FS; and (iv) 26.73% of the equity of our Manager. In the Second Private Placement, the Flexpoint REIT Investor, purchased 192,137 shares of common stock and the Wellington Management Institutional Investor purchased 650,000 shares of common stock (assuming redemption of 156,000 OP Units on a 1-for-1 basis into shares of our common stock). The Flexpoint REIT Investor and the Wellington Management Institutional Investor also have certain additional rights in our Manager, including approval rights with respect to certain actions by our Manager. In addition, so long as the Flexpoint REIT Investor and/or its affiliates own at least 9.8% of our outstanding shares of common stock, the Flexpoint REIT Investor will have the right to nominate a representative for election as a member of our board of directors. For additional information, see "Certain Relationships and Related Party Transactions—Agreements with Anchor Investors."

In July 2014, we used approximately \$48.8 million of the net proceeds from the Original Private Placement to acquire our initial portfolio of mortgage-related assets by acquiring 82% of the limited liability company interests of Little Ajax II LLC, a Delaware limited liability company, or Little Ajax II, from Flexpoint REIT Investor, the Wellington Management Institutional Investor and their respective affiliates. In September, we acquired the remaining interests in this initial mortgage-related asset portfolio. For additional information about the acquisition of our initial portfolio of assets, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

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The following chart illustrates our organizational structure and principal subsidiaries immediately following our IPO. Percentage ownership of our common stock is based on 15,604,591 shares and OP Units outstanding as of the completion of the IPO.

Percentages are rounded, and therefore, may add up to more than 100%.

(1)

The REIT Institutional Investors consist of Flexpoint REIT Investor and the Wellington Management Institutional Investor. Excludes shares of our common stock purchased by Flexpoint REIT Investor and one or more other investment advisory clients of Wellington Management Company LLP (together with the Wellington Management Institutional Investor, the “Wellington Investors”) or their respective affiliates in the IPO. Part of this interest is held in the form of OP Units.

(2)

Includes shares of our common stock that Flexpoint REIT Investor, the Wellington Investors or their respective affiliates have purchased in the IPO.

(3)

Aspen is managed by MARS Development LLC, which is owned 50% by Lawrence Mendelsohn, our chairman and chief executive officer, and 50% by the president of Gregory.

(4)

The Wellington Management Institutional Investor and Flexpoint REIT Investor each also has warrants to purchase an additional 19.8% interest in Great Ajax FS LLC.

(5)

As of the date of this prospectus, there are two securitization trusts through which our operating partnership has issued Class A Notes (the “Class A Notes”), Class B-1 and Class B-2 Notes (the “Class B Notes”) and trust certificates (the “Trust Certificates”). The Class B Notes are held by our operating partnership and the Trust Certificates issued by the securitization trusts and the beneficial ownership of the trusts are retained by Great Ajax Funding LLC. For additional information on our securitizations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

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See “Structure and Formation Transactions” and “Certain Relationships and Related Party Transactions.”

We expect to qualify and will elect to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. Our qualification as a REIT will depend upon our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our capital stock. We believe that we have been organized in conformity with the requirements for qualification as a REIT under the Code and that our current and intended manner of operation will enable us to meet the requirements for taxation as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. As a REIT, we generally will not be subject to U.S. federal income tax on the REIT taxable income that we distribute currently to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax at regular corporate rates. Even if we qualify for U.S. federal taxation as a REIT, we may be subject to some U.S. federal, state and local taxes on our income and property. In addition, Thetis TRS, which owns a 19.8% interest in our Manager, and any other TRS that we form or acquire, will be subject to U.S. federal, state and local income tax. See “Material U.S. Federal Income Tax Considerations.”

Our Distribution Policy

U.S. federal income tax law requires that a REIT distribute annually at least 90% of its REIT taxable income. For more information, see “Material U.S. Federal Income Tax Considerations.”

In connection with the REIT requirements, we intend to make regular quarterly distributions of substantially all of our REIT taxable income to holders of our common stock. Our REIT taxable income does not include any earnings of Thetis TRS or any other TRS that we choose to leave in that subsidiary. Any distributions we make will be at the discretion of our board of directors and will depend upon, among other things, our actual results of operations. Our actual results of operations and our ability to pay distributions will be affected by a number of factors, including the net interest income we receive from our mortgage loans, payments on our retained MBS, the revenue we receive from the sale of loans, the profits we may earn from the sale of REO, rental income we may receive on our REO, any distributions we receive from Thetis TRS in respect of our 19.8% equity interest in our Manager, our operating expenses and any other expenditures.

Management Agreement

On July 8, 2014, we entered into a 15-year management agreement with our Manager, or the management agreement. Under the management agreement, our Manager implements our business strategy and manages our business and investment activities and day-to-day operations, subject to oversight by our board of directors. Among other services, our Manager, directly or through Aspen affiliates, provides us with a management team and necessary administrative and support personnel. We do not currently have any employees and do not expect to have any employees in the foreseeable future. Each of our executive officers is an employee or officer, or both, of our Manager or the Servicer and is paid by our Manager or the Servicer.

Neither we nor our Manager may terminate the management agreement without cause during the first 24 months of its term. Following such 24-month period, we may either terminate the management agreement without cause or, at the expiration of its term, elect not to renew the management agreement upon the determination of at least two-thirds of our independent directors that (i) there has been unsatisfactory performance by our Manager that is materially detrimental to us, or (ii) the compensation payable to our Manager under the management agreement is unreasonable, unless our Manager agrees to compensation that at least two-thirds of our independent directors determine is reasonable. We will be required to pay our Manager a termination fee in the event that the management agreement is terminated as a result of (i) a termination by us without cause, (ii) our decision not to renew the management agreement, including for failure to agree on revised compensation, (iii) a termination by our Manager as a result of our becoming regulated as an “investment company” under the Investment Company Act of 1940, as amended,

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or Investment Company Act (other than as a result of the acts or omissions of our Manager in violation of investment guidelines approved by our board of directors), or (iv) a termination by our Manager if we default in the performance of any material term of the management agreement (subject to a notice and cure period). Following such 24-month period, our Manager may terminate the management agreement without cause by providing written notice to us no later than 180 days prior to December 31 of any year, and the management agreement will terminate effective on the December 31 next following the delivery of such notice. We may terminate the management agreement at any time for cause, as defined in the management agreement, without payment of any termination fee. The management agreement automatically terminates at the same time as the servicing agreement if the servicing agreement is terminated for any reason. See “Our Manager and the Management Agreement.”

We pay our Manager fees and reimburse it for expenses as follows:

Base Management Fee

1.5% of our stockholders’ equity per annum and calculated and payable quarterly in arrears. For purposes of calculating the management fee, our stockholders’ equity means: (a) the sum of (i) the net proceeds from any issuances of common stock or other equity securities issued by us or our operating partnership (without double counting) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), and (ii) our and our operating partnership’s (without double counting) retained earnings calculated in accordance with accounting principles generally accepted in the United States, or GAAP, at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (A) any amount that we or our operating partnership pays to repurchase shares of common stock or OP Units since inception, (B) any unrealized gains and losses and other non-cash items that have affected consolidated stockholders’ equity as reported in our financial statements prepared in accordance with GAAP, and (C) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between our Manager and our independent directors and approval by a majority of our independent directors. As a result, our stockholders’ equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders’ equity shown on our financial statements. 50% of the base management fee is payable in shares of our common stock so long as the ownership of such additional number of shares by our Manager would not violate the 9.8% stock ownership limit set forth in our charter, and the balance is payable in cash. The common stock will be valued at the higher of the most recently reported book value or market value when determining the number of shares. Our Manager has agreed to hold any shares of common stock received by it as payment of the base management fee for at least three years from the date such shares of common stock are received by it.

Incentive Fee

Our Manager is entitled to an incentive management fee that is payable quarterly in arrears in cash in an amount equal to one-fourth of 20% of the dollar amount by which (i) the sum of (A) the aggregate cash dividends, if any, declared out of our REIT taxable income by our board of directors payable to the holders of our common stock and (B) the aggregate cash distributions, if any, declared out of the REIT taxable income of

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the operating partnership (without duplication) by the operating partnership payable to holders of OP Units (other than any OP Units held by us as a limited partner) annualized, or the annualized dividends and distributions, in respect of such calendar quarter exceeds (ii) the product of (1) the book value per share of our common stock as of the end of each such quarter multiplied by the number of shares of our common stock and OP Units (other than any OP Units held by us as a limited partner) outstanding as of the end of such calendar quarter and (2) 8%. Notwithstanding the foregoing, no incentive fee will be payable to our Manager with respect to any calendar quarter unless our cumulative Core Earnings is greater than zero for the most recently completed eight calendar quarters, or the number of completed calendar quarters since the closing date of the Original Private Placement, whichever is less.

Core Earnings is a non-GAAP financial measure and is defined as net income (loss) as determined according to GAAP, excluding non-cash equity compensation expense and any unrealized gains or losses from mark-to-market valuation changes (excluding other-than-temporary impairments, as defined by GAAP) that are included in net income for the applicable period. The amount will be adjusted to exclude (i) one-time events pursuant to changes in GAAP and (ii) non-cash items that in the judgment of management should not be included in Core Earnings, which adjustments in clauses (i) and (ii) shall only be excluded after discussions between our Manager and our independent directors and after approval by a majority of our independent directors.

For purposes of calculating the incentive fee prior to the completion of the eight calendar quarters following the Original Private Placement, Core Earnings will be calculated on the basis of the number of days that the management agreement has been in effect on an annualized basis.

Our Manager will be entitled to an incentive fee only if our board of directors declares a dividend from REIT taxable income, and the incentive fee will be payable at the same time that the dividend is payable to our stockholders. Our Manager will not receive any incentive fee in respect of a dividend constituting a return of capital. Calculations of REIT taxable income and return of capital for purposes of determining the incentive fee shall be made in accordance with Sections 856 through 860 of the Code and the other sections of the Code and the regulations thereunder applicable to us.

For a detailed hypothetical calculation of the incentive fee, see “Our Manager and the Management Agreement.”

Termination Fee

We will be required to pay our Manager a termination fee in the event that the management agreement is terminated as a result of (i) a termination by us without cause, (ii) our decision not to renew the management agreement, including for failure to agree on revised compensation, (iii) a termination by our Manager as a result of our becoming regulated as an “investment company” under the Investment Company Act (other than as a result of the acts or omissions of our Manager in violation of investment

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guidelines approved by our board of directors), or (iv) a termination by our Manager if we default in the performance of any material term of the management agreement (subject to a notice and cure period). The termination fee will be equal to twice the combined base fee and incentive fees payable to our Manager during the 12-month period ended as of the end of the most recently completed fiscal quarter prior to the date of termination.

Expense Reimbursement

We reimburse our Manager for all third-party, out-of-pocket costs incurred by our Manager for managing our business, including third-party diligence and valuation consultants, legal expenses, auditors and other financial services. We will not reimburse our Manager for lease costs or salaries and expenses of employees of our Manager. Our reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash on a monthly basis.

For additional information, see “Our Manager and the Management Agreement.”

Servicing Agreement

On July 8, 2014, we entered into a 15-year servicing agreement with Gregory, or the servicing agreement. Gregory was formed in 2004 to service the mortgage loans and REO of the Aspen Capital companies and has developed a strong team of residential mortgage servicing specialists with expertise in servicing the types of “high-touch,” servicing-intensive loans that we acquire. Its servicing model is focused on optimizing the return for each individual asset. We believe it is important for our servicer to understand each asset and each borrower’s situation and property to determine the most effective resolution and recovery method. Gregory has demonstrated its ability to add significant value to re-performing and non-performing mortgage loans as well as REO. Although our overall servicing costs will vary based on the types of assets serviced, we believe the long term of the servicing agreement provides efficiency and predictability relating to certain major components of our cost structure. We do not expect to use outside or third-party servicers.

We pay Gregory fees and reimburse it for expenses as follows:

Servicing Fees

Servicing fees are 0.65% annually of UPB for performing and re-performing loans and 1.25% annually of UPB for non-performing loans, and are paid monthly. The total fees incurred by us for these services depend upon the UPB and type of mortgage loans that Gregory services pursuant to the terms of the servicing agreement. The fees do not change if a performing loan becomes non-performing or vice versa.

Servicing fees for our real property assets is the greater of (i) the servicing fee applicable to the underlying mortgage loan, or (ii) 1.00% annually of the fair market value of the REO as reasonably determined by our Manager or 1.00% annually of the purchase price of any REO otherwise purchased by us.

Expense Reimbursement

Gregory is reimbursed for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, the actual cost of any repairs and renovations. We do not reimburse Gregory for its employees’ salaries. The total fees incurred by us for these services will be dependent upon the property value, previous UPB of the relevant loan, and the number of REO properties.

Termination Fee

If the management agreement has been terminated other than for cause and the Servicer terminates the servicing agreement, we will

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be required to pay a termination fee equal to the aggregate servicing fees payable under the servicing agreement for the immediate preceding 12-month period.

Under the servicing agreement, Gregory services our residential and commercial mortgage loans and provides loan modification, assisted deed-in-lieu of foreclosure, assisted deed-for-lease and other loss mitigation programs. Gregory also provides property management, lease management and renovation management services associated with the real properties we acquire upon conversion of residential mortgage loans that we may own or that we acquire directly and assists in finding third party refinancing for such properties. The agreement provides for an initial term of 15 years, which term automatically renews for successive one-year terms unless either party sends a notice of non-renewal to the other party at least 180 days before the completion of the initial or renewal term, as applicable. Neither we nor the Servicer may terminate the servicing agreement without cause during the first 24 months of its term. Following such 24-month period, we may terminate the servicing agreement only for cause. Following such 24-month period, the Servicer may terminate the servicing agreement without cause by providing written notice to us no later than 180 days prior to December 31 of any year, and the servicing agreement will terminate effective on the December 31 next following the delivery of such notice. The servicing agreement also provides that the Servicer may terminate the agreement within 180 days after receiving notice that the management agreement has terminated, without any termination payment by us if the management agreement has been terminated for cause. Finally, if we terminate the management agreement for cause, we also have the right to terminate the servicing agreement effective upon the termination of the management agreement.

Our Manager and the Servicer are located in separate premises in the same building and share IT resources, which leads to more effective oversight by our Manager. We also believe this close collaboration leads to better communication among our Manager, the Servicer and us and greater ability by our Manager and the Servicer to enhance IT systems and upgrade analytics with desired features, which enables our Manager and the Servicer to determine the optimal resolution strategy for each loan more quickly. Our Manager communicates an initial pool level strategy to the Servicer and hosts a training session to review priorities and optimal solutions. During the training session, our Manager discusses any such exceptions found during the due diligence process and provides guidance to the Servicer on addressing any issues effectively. In addition to training sessions and informal discussions, both parties meet weekly to review individual modification requests. Every employee of our Manager is very familiar with all functions of the Servicer, which allows them to monitor performance at a granular level to maximize individual asset returns.

Conflicts of Interest

We depend on our Manager for our day-to-day management and do not have any independent officers or employees. Each of our executive officers, except for our chief financial officer, has a direct interest in the financial success of our Manager or the Servicer. Mr. Mendelsohn, our chief executive officer, is also the chief executive officer of our Manager, and Mr. Schaub, our president, and Mr. Ohl, our chief financial officer, are also chief operating officer and chief financial officer, respectively, of the Servicer. Mr. Mendelsohn is also a partner of Aspen Capital, the trade name for the Aspen group of companies, and Mr. Ohl is the chief financial officer of Aspen. In addition, Mr. Begleiter, a director, is a managing director at Flexpoint Ford LLC. As of April 10, 2015, Flexpoint REIT Investor, an affiliate of an investment fund managed by Flexpoint Ford LLC, owned 12.1% of our common stock (assuming redemption of OP Units on a 1-for-1 basis into shares of our common stock), a 9.8% equity interest in GA-FS (plus warrants for an additional 19.8% equity interest), the parent of the Servicer, and a 26.73% equity interest in our Manager. In addition, so long as Flexpoint REIT Investor and/or its affiliates own at least 9.8% of the outstanding shares of our common stock, Flexpoint REIT Investor has the right to nominate a representative for election as a member of our board of directors.

The management agreement and the servicing agreement were negotiated between related parties, and their respective terms, including fees and other amounts payable, may not be as favorable to us as if any of them had been negotiated at arm's-length with an unaffiliated third party. In addition, the ability of our Manager and its officers and personnel to engage in certain other business activities may reduce the time that our Manager's officers and personnel spend managing us.

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We expect to be the exclusive investment vehicle for our Manager and its affiliates to acquire and own re-performing and non-performing mortgage loans. Our Manager has agreed that, for so long as the management agreement is in effect and provided that either we have on hand an average of \$25 million in capital available for investment over the previous two fiscal quarters or our independent directors determine that we have the ability to raise capital at or above our most recent book value, neither it nor any of its affiliates will (i) sponsor or manage any investment vehicle or company whose investment strategy will involve acquiring re-performing or non-performing mortgage loans unless our Manager obtains the prior approval of a majority of our independent directors or (ii) acquire assets consistent with our investment mandate on behalf of another investment vehicle unless we are first offered the investment opportunity and a majority of our board of directors (including a majority of our independent directors) decide not to acquire such assets.

In addition, to avoid any actual or perceived conflicts of interest with our Manager, we will not purchase portfolio assets from (or sell portfolio assets to) our directors or officers, our Manager, Aspen, or any of their affiliates, nor will we engage in any transaction in which these persons have a direct or indirect pecuniary interest, including in connection with the securitization of any of our mortgage loan assets. This provision excludes the management agreement, the servicing agreement, the acquisition of our original assets using a portion of the proceeds of our Original Private Placement, transactions in which Gregory is the holder of record for assets that we cannot own directly because neither we nor any of our subsidiaries holds necessary licenses, and any transactions approved by a majority of the independent directors of our board of directors.

Gregory also continues to service the assets it currently services for funds managed by Aspen and its affiliates and may in its discretion service assets that are not re-performing or non-performing mortgage loans (such as Agency loans). Gregory has agreed, provided that either we have on hand an average of \$25 million in capital available for investment over the previous two fiscal quarters or our independent directors determine that we have the ability to raise capital at or above our most recent book value, not to service re-performing or non-performing mortgage loans for either affiliates of our Manager or independent third parties; however, as long as the majority of our independent directors approve, Gregory can service any assets for affiliates or independent third parties, including if we determine not to acquire assets that would otherwise be appropriate for us.

Our Exclusion from Regulation as an Investment Company

We intend to conduct our operations so that neither we nor any of our subsidiaries is required to register as an investment company under the Investment Company Act. Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, which we refer to as the 40% test. Excluded from the term "investment securities," among other things, are securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exclusion from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. We are organized as a holding company and conduct our businesses primarily through wholly owned subsidiaries of our operating partnership. Our operating partnership holds certain real estate and real estate-related assets directly and through our subsidiaries. Neither we nor our operating partnership nor Great Ajax Funding is an investment company under Section 3(a)(1)(C). In addition, we intend to conduct our operations so that neither we nor our operating partnership nor Great Ajax Funding come within the definition of an investment company by ensuring that less than 40% of the value of our total assets on an unconsolidated basis consists of "investment securities." We monitor our compliance with the 40% test and the holdings of our subsidiaries to ensure that each of our subsidiaries is in compliance with an applicable exemption or exclusion from registration as an investment company under the Investment Company Act. Our 19.8% equity interest in our Manager is owned by Thetis TRS, which is a special purpose subsidiary of

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our operating partnership. Thetis TRS may rely on Section 3(c)(1) or 3(c)(7) for its Investment Company Act exclusion and, therefore, our interest in such subsidiary would constitute an “investment security” for purposes of determining whether we pass the 40% test.

The Investment Company Act defines a majority-owned subsidiary of a person as a company 50% or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority-owned subsidiary of such person. We treat companies in which we own at least a majority of the outstanding voting securities as majority-owned subsidiaries. The determination of whether an entity is a majority-owned subsidiary of our company is made by us. We have not asked the SEC staff for concurrence of our analysis and it is possible that the SEC staff could disagree with any of our determinations. If the SEC staff were to disagree with our treatment of one or more companies as majority-owned subsidiaries, we would need to adjust our strategy and our assets. Any such adjustment in our strategy could have a material adverse effect on us.

We believe that neither we nor certain of our subsidiaries will be considered investment companies under Section 3(a)(1)(A) of the Investment Company Act because we and they will not engage primarily or hold themselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, we and such subsidiaries will be primarily engaged in non-investment company businesses related to real estate. Consequently, we and our subsidiaries expect to be able to conduct our operations such that none will be required to register as an investment company under the Investment Company Act.

Certain of our subsidiaries may also rely upon certain exclusions from the definition of investment company under Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C), as interpreted by the staff of the SEC, requires an entity to invest at least 55% of its assets in “mortgages and other liens on and interests in real estate,” which we refer to as “qualifying real estate interests,” and at least 80% of its assets in qualifying real estate interests plus “real estate-related assets.”

Qualification for exclusion from registration under the Investment Company Act limits our ability to make certain investments. In addition, complying with the tests for exclusion from registration could restrict the time at which we can acquire and sell assets. To the extent that the SEC or its staff provides more specific guidance regarding any of the matters bearing upon such exclusions, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC or its staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies we have chosen. We cannot assure you that the SEC or its staff will not take action that results in our or our subsidiary’s failure to maintain an exclusion or exemption from the Investment Company Act.

The loss of our exemption from regulation pursuant to the Investment Company Act could require us to restructure our operations, sell certain of our assets or abstain from the purchase of certain assets, which could have an adverse effect on our business strategy, financial condition and results of operations. See “Risk Factors—Risks Related to Our Organizational Structure—Maintenance of our exclusion from registration as an investment company under the Investment Company Act imposes significant limitations on our operations.”

Other Laws and Regulations

Our business is subject to extensive regulation by federal, state and local authorities. We will be required to comply with numerous federal consumer protection and other laws. See “Business—Other Laws and Regulations.”

REIT Restrictions on Ownership of Our Common Stock

In order to assist us in qualifying as a REIT for U.S. federal income tax purposes, among other purposes, our charter contains restrictions relating to the amount of shares of our common and capital stock that a person may own. Our charter provides that, subject to certain exceptions, no person, including a “group,” as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, may beneficially own, or be deemed to own, by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock or the aggregate of the

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outstanding shares of our capital stock. In addition, our charter also prohibits any person from (a) beneficially or constructively owning shares of our capital stock if such ownership would result in our being “closely held” under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT, and (b) transferring shares if such transfer would result in our shares being owned by fewer than 100 persons. See “Description of Capital Stock—Restrictions on Ownership and Transfer.” Our board of directors has granted ownership waivers to Flexpoint REIT Investor, the Wellington Investors and certain other investors.

Implications of Being an Emerging Growth Company

We qualify as an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the “JOBS Act.” An emerging growth company may take advantage of specified reduced reporting requirements and are relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company, among other things:

- We are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;
- We are permitted to provide less extensive disclosure about our executive compensation arrangements;
- We are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements; and
- We have elected to use an extended transition period for complying with new or revised accounting standards.

We may take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.0 billion in annual revenues, have more than \$700 million in market value of our common shares held by non-affiliates, or issue more than \$1.0 billion of non-convertible debt securities over a three-year period. We may choose to take advantage of some but not all of these reduced burdens.

Summary Risk Factors

An investment in our common stock is subject to risks. The following is a summary of the principal risks that you should carefully consider before investing in shares of our common stock. See “Risk Factors” beginning on page 21 of this prospectus, for more detailed discussion of the factors you should consider before deciding to invest in shares of our common stock.

- We have a limited operating history and may not be able to operate our business in accordance with the REIT requirements or generate sufficient revenue to make or sustain distributions to our stockholders.
- A significant portion of the residential mortgage loans that we acquire are, or may become, non-performing loans, which could increase our risk of loss.
- The supply of re-performing and non-performing loans may decline over time as a result of higher credit standards for new loans and/or general economic improvement, and the prices for re-performing and non-performing loans may increase, which could materially and adversely affect us.
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We may be materially and adversely affected by risks affecting borrowers or the single-family rental properties in which our investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions.

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Recent changes in consumer mortgage loan regulations may make it more difficult for borrowers to refinance our purchased mortgage loans.

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A significant change in delinquencies for the loans we will own could adversely affect our business, financial condition and results of operations.

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- Market conditions and other factors may affect our ability to securitize assets, which could increase our financing costs and adversely affect our results of operations and ability to make distributions.
- Prepayment rates can change, adversely affecting the performance of our assets and our ability to reinvest the proceeds thereof.
- The real estate assets and real estate-related assets we intend to or may invest in are subject to the risks associated with real property.
- An increase in interest rates may cause a decrease in the amount of certain of our target assets that are available for acquisition, which could adversely affect our ability to acquire target assets that satisfy our investment objectives and to generate income and pay dividends.
- The principal and interest payments on our retained MBS are not guaranteed by any entity and, therefore, are subject to increased risks, including credit risk.
- The Servicer's operations are heavily regulated at the U.S. federal, state and local levels and its failure to comply with applicable regulations could materially adversely affect our expenses and results of operations, and there is no assurance that we could replace the Servicer with servicers that satisfy our requirements or with whom we could enter into agreements on satisfactory terms.
- The failure of the Servicer to service our assets effectively would materially and adversely affect us.
- We may incur significant costs in restoring our properties, and we may underestimate the costs or amount of time necessary to complete such restorations.
- We may change our investment strategy, investment guidelines and asset allocation without notice or stockholder consent, which may result in riskier investments. In addition, our charter provides that our board of directors may authorize us not to seek to elect to be taxed as a REIT or to revoke or otherwise terminate our REIT election without the approval of our stockholders.
- Our inability to compete effectively in a highly competitive market could adversely affect our ability to implement our business strategy, which could materially and adversely affect us.
- Our ability to make distributions to our stockholders will depend on our operating results, our financial condition and other factors and we may not be able to make regular cash distributions at a fixed rate or at all under certain circumstances.
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We use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our stockholders and increase losses when economic conditions are unfavorable.

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Hedging against interest rate changes and other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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We operate in a highly regulated industry and continually changing U.S. federal, state and local laws and regulation could materially adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders.

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We have conflicts of interest with our Manager, the Servicer and Aspen, and certain members of our board of directors, as well as our management team, have, or could have in the future, conflicts of interest due to their respective relationships with these entities, and such conflicts could be resolved in a manner adverse to us.

•

Our board of directors has approved a very broad investment policy and guidelines for our Manager and will not review or approve each investment decision. We may change our investment policy and guidelines without stockholder consent, which may materially and adversely affect the market price of our common stock and our ability to make distributions to our stockholders.

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- Maintenance of our exclusion from regulation as an investment company under the Investment Company Act imposes significant limitations on our operations.

- Our charter generally does not permit ownership in excess of 9.8% of any class or series of our stock, and attempts to acquire our stock in excess of the stock ownership limit will be ineffective unless an exemption is granted by our board of directors. These provisions may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares of common stock.

- Failure to qualify as a REIT would subject us to U.S. federal, state and local income taxes, which could adversely affect the value of shares of our common stock and would substantially reduce the cash available for distribution to our stockholders.

- The taxable mortgage pool, or TMP, rules may increase the taxes that we, or certain of our stockholders, may incur and may limit the manner in which we effect future securitizations.

- Failure to comply with the tax regulations with respect to Thetis TRS and any other TRS that we form would jeopardize our REIT status and may result in the application of a 100% excise tax.

- The Internal Revenue Service, or IRS, may deem the gains from sales of our properties to be subject to a 100% prohibited transaction tax.

Our Principal Office

Our principal offices are located at 9400 SW Beaverton-Hillsdale Hwy, Suite 131, Beaverton, OR 97005. Our telephone number is 503-505-5670. Our web address is www.great-ajax.com. The information on our website does not constitute a part of this prospectus.

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THE OFFERING

Common stock offered by selling
stockholders

10,445,784 shares

Common stock outstanding

15,226,163 shares

Common stock and OP Units outstanding

15,850,269 shares and OP Units

Use of proceeds

We will not receive any proceeds from the sale of our common stock by the selling stockholders.

NYSE Symbol

AJX

Transfer restrictions

Due to limitations on the concentration of ownership of a REIT imposed by the Code, our charter prohibits any stockholder from directly or indirectly owning more than 9.8% of the outstanding shares of our capital stock, subject to the right of our board of directors to waive such restriction. Our board of directors has granted ownership waivers to Flexpoint REIT Investor, the Wellington Investors and certain other investors. See “Description of Capital Stock—Restrictions on Ownership and Transfer.”

Risk factors

Investing in our common stock involves a high degree of risk. See “Risk Factors” beginning on page 21.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, together with the other information contained in this prospectus, before purchasing our common stock. Any of the following factors could harm our business and future results of operations and could result in a partial or complete loss of your investment. This could cause the value of our common stock to decline significantly, and you could lose part or all of your investment. Some statements in this prospectus, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled “Cautionary Statement Regarding Forward-Looking Statements.”

Risks Related to Our Business

We have a limited operating history and may not be able to operate our business in accordance with the REIT requirements or generate sufficient revenue to make or sustain distributions to our stockholders.

We were incorporated on January 30, 2014 and commenced operations on July 8, 2014, following the closing of the Original Private Placement. Prior to July 8, 2014, neither we nor our Manager had any operating history, and our Manager has not previously operated or managed a REIT. We cannot assure you that we will be able to operate our business successfully or implement our operating policies and strategies. There can be no assurance that we will be able to generate sufficient returns to pay our operating expenses and make satisfactory distributions to our stockholders or any distributions at all. The results of our operations depend on factors over which we have no control, including the availability of acquisition opportunities, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the mortgage loan and financial markets and general economic conditions.

A significant portion of the residential mortgage loans that we acquire are, or may become, non-performing loans, which could increase our risk of loss.

We expect to acquire residential mortgage loans where the borrower has failed to make timely payments of principal and/or interest currently or in the past. As part of the residential mortgage loan portfolios we purchase, we also may acquire performing loans that subsequently become non-performing. We currently do not expect to acquire newly originated residential mortgage loans on properties that are not already part of our mortgage loan or REO portfolio. Under current market conditions, many of these loans will have current loan-to-value ratios in excess of 100%, meaning the amount owed on the loan exceeds the value of the underlying real estate. Although we expect to purchase loans at significant discounts to UPB and underlying property value, if actual results are different from our assumptions in determining the prices for such loans, particularly if the market value of the underlying property decreases significantly, we may incur significant losses. There are no limits on the percentage of non-performing loans we may hold. Any loss we incur may be significant and could materially and adversely affect us.

Residential mortgage loan modification and refinance programs, future legislative action, and other actions and changes in the general economy may materially and adversely affect the supply of, value of, and the returns on, re-performing and non-performing loans.

Our business model depends on the acquisition of a steady supply of re-performing and non-performing loans, our ability to support continued performance by borrowers under re-performing loans, the success of our loan modification and other resolution efforts and to a certain extent, the conversion of a portion of those loans to REO that we can then sell or rent. The number of re-performing and non-performing loans available for purchase may be reduced by uncertainty in the lending industry and the governmental sector and/or as a result of general economic improvement. Lenders may choose to delay foreclosure proceedings, renegotiate interest rates or refinance loans for borrowers who face foreclosure.

In addition, in recent years, the U.S. federal government has instituted a number of programs aimed at assisting at-risk homeowners, or reducing the number of properties going into foreclosure or going into non-performing status. For example, the U.S. Government, through the Department of the Treasury, U.S. Department of Housing and Urban Development, or HUD, and the Federal Housing Finance Agency or, FHFA, has implemented a number of federal programs designed to assist homeowners, including HAMP, which provides homeowners with assistance in avoiding foreclosure on residential mortgage loans, and the

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Home Affordable Refinance Program, or HARP, which allows Fannie Mae and Freddie Mac borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments without new mortgage insurance, up to an unlimited loan-to-value ratio for fixed-rate mortgages. HAMP, HARP and other loss mitigation programs may involve, among other things, the modification of residential mortgage loans to reduce the principal amount of the loans (through forbearance and/or forgiveness) and/or the rate of interest payable on the loans or to extend the payment terms of the loans. These loan modification programs, future legislative or regulatory actions, including possible amendments to the bankruptcy laws that result in the modification of outstanding residential mortgage loans, as well as changes in the requirements necessary to qualify for refinancing residential mortgage loans, may materially and adversely affect the value of, and the returns on, our portfolio of re-performing and non-performing loans.

Other governmental actions may affect our business by hindering the pace of foreclosures. In recent periods, there has been a backlog of foreclosures in certain jurisdictions, due to a combination of volume constraints and legal actions, including those brought by the U.S. Department of Justice, or DOJ, HUD, State Attorneys General, the office of the Comptroller of the Currency, and the Federal Reserve Board against mortgage servicers alleging wrongful foreclosure practices. Legal claims brought or threatened by the DOJ, HUD, CFPB and State Attorneys General against residential mortgage servicers have produced large settlements. A portion of the funds from these settlements are directed to homeowners seeking to avoid foreclosure through mortgage modifications, and servicers are required to adopt specified measures to reduce mortgage obligations in certain situations. It is expected that the settlements will help many homeowners avoid foreclosures that would otherwise have occurred in the near-term. It is also possible that other residential mortgage servicers will agree to similar settlements. These developments will reduce the number of homes in the process of foreclosure and decrease the supply of properties and assets that meet our investment criteria. In addition, the U.S. Congress and numerous state legislatures have considered, proposed or adopted legislation to constrain foreclosures, or may do so in the future. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, also created the CFPB, which supervises consumer financial services companies (including bank and non-bank mortgage lenders and mortgage servicers) and enforces U.S. federal consumer protection laws as they apply to banks, credit unions and other financial services companies, including mortgage servicers, and which has issued many regulations regarding mortgage origination and servicing. These regulations provide for special remedies in favor of consumer mortgage borrowers, particularly upon default and foreclosure. It remains uncertain whether any of these measures will have a significant impact on foreclosure volumes or what the timing of that impact would be. If foreclosure volumes were to decline significantly, we may experience difficulty in finding target assets at attractive prices, which will materially and adversely affect us. Also, the number of families seeking rental housing might be reduced by such legislation, reducing rental housing demand for properties that we may seek to rent in our markets.

The supply of re-performing and non-performing loans may decline over time as a result of higher credit standards for new loans and/or general economic improvement, and the prices for re-performing and non-performing loans may increase, which could materially and adversely affect us.

As a result of the continuing effects of the economic crisis in 2008, there has been an increased supply of re-performing and non-performing loans available for sale. However, in response to the economic crisis, the origination of jumbo, subprime, Alt-A and second-lien residential mortgage loans has dramatically declined as lenders have increased their standards of creditworthiness in originating new loans and fewer homeowners may go into non-performing status on their residential mortgage loans. In addition, the prices at which re-performing and non-performing loans can be acquired may increase due to the entry of new participants into the distressed loan marketplace or a smaller supply of re-performing and non-performing loans in the marketplace. For these reasons, along with the continuing slow rate of general improvement in the economy, the supply of re-performing and non-performing residential mortgage loans that we may acquire may decline over time, which could materially and adversely affect us.

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

Our business is materially affected by conditions in the residential mortgage market, the residential real estate market, the smaller commercial real estate market, the financial markets and the economy in general. Concerns about the residential mortgage market and a not-yet-stable real estate market, as well as inflation, energy costs, geopolitical issues, concerns over the creditworthiness of governments worldwide and the stability of the global banking system, continuing relatively high unemployment and under-employment and the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and markets going forward. In particular, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions, including defaults, credit losses and liquidity concerns. Certain commercial banks, investment banks and insurance companies continue to announce losses from exposure to the residential mortgage market. These factors have affected investor perception of the risk associated with MBS, other real estate-related securities and various other asset classes in which we may invest. As a result, values of certain of our assets and the asset classes in which we intend to invest have experienced volatility. Further deterioration of the mortgage market and investor perception of the risks associated with MBS we may retain as part of our securitizations, as well as other assets that we acquire could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We may be materially and adversely affected by risks affecting borrowers or the single-family rental properties in which our investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions.

Our assets are not subject to any geographic, diversification or concentration limitations. Accordingly, our investment portfolio may be concentrated by geography, single-family rental property characteristics and/or borrower demographics, increasing the risk of loss to us if the particular concentration in our portfolio is subject to greater risks or undergoing adverse developments. In addition, adverse conditions in the areas where the properties securing or otherwise underlying our investments are located (including business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) may have an adverse effect on the value of our investments. A material decline in the demand for single-family housing or rentals in these or other areas where we will own assets may materially and adversely affect us. Lack of diversification can increase the correlation of non-performance and foreclosure risks among our investments. Historically, the mortgage and real estate assets acquired by affiliates of our Manager have been concentrated in Florida and the western and southwestern United States.

Recent changes in consumer mortgage loan regulations may make it more difficult for borrowers to refinance our purchased mortgage loans.

The Dodd-Frank Act authorized the CFPB to issue regulations, including the Ability-to-Pay Rule, or the ATR Rule, governing a loan originator's determination that, at the time a loan is originated, the consumer has a reasonable ability to repay the loan, or ATR. The CFPB promulgated the ATR Rule, which implements detailed requirements on how lenders must establish a borrower's ability to repay a covered mortgage loan. The ATR Rule became effective for residential mortgage loan applications received on or after January 10, 2014. A subset of mortgages within the ATR Rule are known as "qualified mortgages," or QMs. The Dodd-Frank Act provides a statutory presumption that a borrower will have the ability to repay a loan if the loan has the characteristics that meet the definition of QM, potentially mitigating the risk of liability of the creditor and assignee of the creditor for special ATR remedies under the U.S. federal Truth in Lending Act, or TILA. Mortgage lenders may be reluctant to make loans that do not qualify as QMs because they will not be entitled to such protection against civil liability under the Dodd-Frank Act. As a result, the ATR Rule may restrict the availability of mortgage loans in the market, including refinancing loans. Changes in the underwriting standards by Freddie Mac, Fannie Mae or FHA could make it more difficult to refinance our purchased mortgage loans.

In 2010, Freddie Mac and Fannie Mae announced tighter underwriting guidelines, particularly for adjustable rate mortgages, or ARMs, and hybrid interest-only ARMs, or Hybrid ARMs. Specifically,

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Freddie Mac announced that it would no longer purchase interest-only mortgages and Fannie Mae changed its eligibility criteria for purchasing and securitizing ARMs to protect consumers from potentially dramatic payment increases. Stricter underwriting standards by Freddie Mac, Fannie Mae or the FHA could affect our ability to refinance mortgage loans and the terms on which mortgage loans may be refinanced, which may adversely affect our business and results of operations.

The whole residential mortgage loans and other residential mortgage assets in which we may invest are subject to risk of default, among other risks.

The mortgage loans and other mortgage-related assets that we may acquire from time to time may be subject to defaults (including re-default for re-performing loans), foreclosure timeline extension, fraud, residential price depreciation and unfavorable modification of loan principal amount, interest rate and amortization of principal, which could result in losses to us. Residential mortgage loans are secured by single-family residential property and, when not guaranteed by a government sponsored enterprise, or GSE, such as Fannie Mae and Freddie Mac, or securitized through Ginnie Mae, are subject to risks of delinquency and foreclosure and risks of loss. The payment of the principal and interest on the mortgage loans we expect to acquire would not typically be guaranteed by any GSE or any other governmental agency. Additionally, by directly acquiring whole mortgage loans, we do not receive the structural credit enhancements that can benefit senior tranches of MBS. A whole mortgage loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower and the priority and enforceability of the lien will significantly affect the value of such mortgage. The ability of a borrower to repay a loan secured by a residential property typically depends upon the income or assets of the borrower. A number of factors, including a general economic downturn, acts of nature, terrorism, social unrest and civil disturbances, may impair a borrower's ability to repay a mortgage loan. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on a foreclosed mortgage loan. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses. Whole mortgage loans are also subject to "special hazard" risk such as property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor in possession to the extent the lien is unenforceable under state law. In addition, claims may be assessed against us on account of our position as a mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be "recourse liabilities" or may otherwise lead to losses in excess of the purchase price of the related mortgage or property. Although we expect to acquire mortgage loans at significant discounts from their UPB and underlying property value, in the event of any default under a mortgage loan held directly by us, we bear a risk of loss of the principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations and results of operations.

The MBS we retain from our own securitizations evidence interests in, or are secured by, pools of residential mortgage loans. Accordingly, the MBS that we hold will be subject to all of the risks of the respective underlying mortgage loans.

For certain residential mortgage loans, the Dodd-Frank Act established, through amendment to TILA, life-of-loan liability on any holder of a residential mortgage loan that takes action on the loan following default (including foreclosure). This liability is premised upon violation of the ATR Rule, as well as violation of the loan originator compensation rule. Borrower remedies, available by way of recoupment or set-off, include statutory damages and attorneys' fees.

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Our commercial mortgage loans in respect of smaller multi-family residential properties or smaller mixed use retail/residential properties may be subject to defaults, foreclosure timeline extension, fraud and commercial price depreciation and unfavorable modification of loan principal amount, interest rate and amortization of principal. Our commercial mortgage loans secured by multi-family or commercial property may be subject to risks of delinquency and foreclosure, and risk of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically depends primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things:

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location and condition;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- any need to address environmental contamination at the property or the occurrence of any uninsured casualty at the property;
- changes in national, regional or local economic conditions and/or specific industry segments;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates;
- real estate tax rates and other operating expenses;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation; and

- acts of God, terrorist attacks, social unrest and civil disturbances.

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

If we acquire and subsequently re-sell any whole mortgage loans, we would generally be required to make customary representations and warranties about such loans to the loan purchaser. Our residential mortgage loan sale agreements and terms of any securitizations into which we sell loans will generally require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan.

Repurchased loans are typically worth only a fraction of the original price. Significant repurchase activity could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. Further, depending on the level of repurchase and resale activities, we may determine to conduct any such activities through a TRS.

We are subject to counterparty risk and may be unable to seek indemnity or require our counterparties to repurchase mortgage loans if they breach representations and warranties, which could cause us to suffer losses.

When selling mortgage loans, sellers typically make customary representations and warranties about such loans. Our residential mortgage loan purchase agreements may entitle us to seek indemnity or demand repurchase or substitution of the loans in the event our counterparty breaches a representation or warranty given to us. However, there can be no assurance that our mortgage loan purchase agreements will contain

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appropriate representations and warranties, that we will be able to enforce our contractual right to repurchase or substitution, or that our counterparty will remain solvent or otherwise be able to honor its obligations under its mortgage loan purchase agreements. Our inability to obtain indemnity or require repurchase of a significant number of loans could harm our business, financial condition, liquidity, results of operations and our ability to make distributions to our stockholders.

Certain investments in portfolios of whole mortgage loans and other mortgage assets may require us to purchase less desirable mortgage assets as part of an otherwise desirable pool of mortgage assets, which could subject us to additional risks relating to the less desirable mortgage assets.

If we acquire portfolios of whole mortgage loans and other mortgage assets, the portfolio may contain some assets that we would not otherwise seek to acquire on their own. These other assets may subject us to additional risks.

Acquisition of less desirable mortgage assets may impair our performance and reduce the return on our investments.

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

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

The failure of a seller of mortgage loans to provide all the necessary documentation to us could adversely affect our ability to leverage our assets or otherwise service the mortgage loans that we will own.

Pursuant to customary provisions in the purchase agreements governing our loan acquisitions, we also generally will have the right to cause the sellers to repurchase certain loans if they do not provide proper documentation to evidence ownership or first lien status with respect to such loans within a specified time period. Any delay or inability to obtain such documentation could adversely affect our ability to leverage such loans, could adversely affect the Servicer's ability to service those mortgage loans and any such repurchases by the sellers would decrease the size of our portfolio.

We will primarily own higher risk loans, which are more expensive to service than conventional mortgage loans.

A significant percentage of the mortgage loans we will own are higher risk loans, meaning that the loans are to less creditworthy borrowers or for properties the value of which has decreased. These loans are more expensive to service because they require more frequent interaction with customers and greater monitoring and oversight. Additionally, in connection with the ongoing mortgage market reform and regulatory developments, servicers of higher risk loans may be subject to increased scrutiny by state and U.S. federal regulators or may experience higher compliance costs, which could result in a further increase in servicing costs. Through the servicing agreement, the Servicer will pass along to us many of the additional third-party expenses incurred by it in servicing these higher risk loans. The greater cost of servicing higher risk loans, which may be further increased through regulatory reform, could adversely affect our business, financial condition and results of operations.

A change in delinquencies for the loans we will own could adversely affect our business, financial condition and results of operations.

Delinquency rates have a significant impact on our revenues and expenses of our mortgage loans as follows:

- Revenue. Increased delinquencies generate higher ancillary fees to the loan servicer, which fees are recoverable, if at all, in the event that the related loan is liquidated prior to payment of the interest on the loan or MBS that we will own.

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- Expenses. An increase in delinquencies will result in a higher cost to service due to the increased time and effort required to collect payments from delinquent borrowers. The cost of servicing an increasingly delinquent mortgage loan portfolio may rise without a corresponding increase in revenue because of increased third-party cost reimbursements such as property taxes and insurance.

An increase in delinquency rates could therefore adversely affect our business, financial condition and results of operations.

Moreover, a significant percentage of the mortgage loans we will own are higher risk loans, which tend to have higher delinquency and default rates than GSE and government agency-insured mortgage loans. These higher risk loans, combined with decreases in property values, have caused increases in loan-to-value ratios, resulting in borrowers having little or negative equity in their property, which may provide incentive to borrowers to strategically default on their loans. Recent laws delay the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans or otherwise limit the ability of mortgage servicers to take actions that may be essential to preserve the value of the mortgage loans. Any such limitations are likely to cause delayed or reduced collections from mortgagors. Market conditions and other factors may affect our ability to securitize assets, which could increase our financing costs and adversely affect our results of operations and ability to make distributions.

Our ability to obtain permanent non-recourse financing through securitizations will be affected by a number of factors, including:

- conditions in the securities markets, generally;

- conditions in the asset-backed securities markets, specifically;

- yields on our portfolio of mortgage loans;

- the credit quality of our portfolio of mortgage loans; and

- our ability to obtain any necessary credit enhancement.

In recent years, the asset-backed securitization markets have experienced unprecedented disruptions, and securitization volumes have decreased sharply. Recent conditions in the securitization markets include reduced liquidity, increased risk premiums for issuers, reduced investor demand, financial distress among financial guaranty insurance providers, a general tightening of credit and substantial regulatory uncertainty. Although we have been able to complete two securitizations, if these conditions worsen in the future, they could increase our cost of funding, and could reduce or even eliminate our access to the securitization market. As a result, these conditions could preclude us from securitizing assets acquired for such purpose.

Our ability to sell mortgage loans into securitizations could also be delayed, limited, or precluded by legislative and regulatory reforms applicable to asset-backed securities and the institutions that sponsor, service, rate, or otherwise participate in, or contribute to, the successful execution of a securitization transaction. Other factors could also limit, delay, or preclude our ability to sell assets into securitizations. Provisions of the Dodd-Frank Act have required significant revisions to the legal and regulatory framework that apply to the asset-backed securities markets and securitizations. For example, Section 15G of the Exchange Act, as modified by the Dodd-Frank Act, generally requires the issuer of asset-backed securities to retain not less than five percent of the credit risk of the assets collateralizing the asset-backed securities. While Section 15G includes an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as “qualified residential mortgages” (as defined in the

accompanying regulations), re-performing loans of the type that we intend to purchase and securitize generally will not qualify for this exemption. We will therefore be required to retain five percent or more of the credit risk associated with the assets we securitize.

In addition to these laws and rules, other U.S. federal or state laws and regulations that could affect our ability to sell assets into securitization programs may be proposed, enacted, or implemented. These laws and regulations could effectively preclude us from financing our assets through securitizations or could delay our execution of these types of transactions. Other matters, such as (i) accounting standards applicable to

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securitization transactions and (ii) capital and leverage requirements applicable to banks and other regulated financial institutions that traditionally purchase and hold asset-backed securities, could also result in less investor demand for securities issued through securitization transactions.

Prepayment rates can change, adversely affecting the performance of our assets and our ability to reinvest the proceeds thereof.

The frequency at which prepayments (including voluntary prepayments by borrowers, loan buyouts and liquidations due to defaults and foreclosures) occur on mortgage loans, including those underlying MBS, is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, it results in prepayments that are faster or slower than expected on the mortgage loans and any related MBS. These faster or slower than expected payments may adversely affect our profitability, although the effects vary because upon prepayment we can receive 100% of the remaining UBP that we had purchased at a significant discount. We may purchase loans that have a higher interest rate than the then prevailing market interest rate. In exchange for this higher interest rate, we may pay a premium to par value to acquire the loan. In accordance with GAAP, we amortize this premium over the expected term of the security or loan based on our prepayment assumptions or its contractual terms, depending on the type of loan or security purchased. If a loan is prepaid in whole or in part at a faster than its expected rate or contractual term (as applicable), we must expense all or a part of the remaining unamortized portion of the premium that was paid at the time of the purchase, which will adversely affect our profitability.

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

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayments can also occur when borrowers sell the property and use the sale proceeds to prepay the mortgage as part of a physical relocation or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property. The GSE guidelines for repurchasing delinquent loans from MBS trusts and changes in such guidelines also affect prepayment rates. Consequently, prepayment rates also may be affected by conditions in the housing and financial markets, which may result in increased delinquencies on mortgage loans, cost of capital, general economic conditions and the relative interest rates on fixed and adjustable rate loans, which could lead to an acceleration of the payment of the related principal.

The adverse effects of prepayments may affect us in various ways. Particular investments may under-perform relative to any hedges that we may have constructed for these assets, resulting in a loss to us. Furthermore, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets, which may reduce our income in the long run. Therefore, if actual prepayment rates differ from anticipated prepayment rates, our business, financial condition and results of operations and ability to make distributions to our stockholders could be materially adversely affected.

The real estate assets and real estate-related assets we intend to or may invest in are subject to the risks associated with real property.

We will own real estate directly as well as assets that are secured by real estate. Real estate assets are subject to various risks, including:

- declines in the value of real estate;

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- acts of nature, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold; and
- the potential for uninsured or under-insured property losses.

The occurrence of any of the foregoing or similar events may reduce our return from an affected property or asset and, consequently, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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

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

Our use of models in connection with the valuation of our assets subjects us to potential risks in the event that such models are incorrect, misleading or based on incomplete information.

As part of the risk management process, we use our Manager's detailed proprietary models to evaluate, depending on the asset class, house price appreciation and depreciation by county, region, prepayment speeds and foreclosure frequency, cost and timing. Models and data are used to value assets or potential assets and also in connection with any hedging of our acquisitions. Many of the models are based on historical trends. These trends may not be indicative of future results. Furthermore, the assumptions underlying the models may prove to be inaccurate, causing the models to also be incorrect. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, especially valuation models, we may be induced to buy certain assets at prices that are too high, to sell certain other assets at prices that are too low or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful.

Valuations of some of our assets will be inherently uncertain, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed. While in some cases our determination of the fair value of our assets will be based on valuations provided by third-party dealers and pricing services, we will value most of our assets using unobservable inputs based upon our judgment, and such valuations may differ from those provided by third-party dealers and pricing services. Valuations of certain assets are often difficult to obtain or unreliable. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any

warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. The valuation process has been particularly difficult recently because market events have made valuations of certain assets unpredictable, and the disparity of valuations provided by third-party dealers has widened.

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Our business, financial condition and results of operations and our ability to make distributions to our stockholders could be materially adversely affected if our fair value measurements of these assets were materially higher than the values that would exist if a ready market existed for these assets.

The lack of liquidity of our assets may adversely affect our business, including our ability to sell our assets.

We acquire assets, securities or other instruments that are not liquid or publicly traded, and market conditions could significantly and negatively affect the liquidity of other assets.

In addition, mortgage-related assets generally experience periods of illiquidity, including the recent period of delinquencies and defaults with respect to residential and commercial mortgage loans. Further, validating third-party pricing for illiquid assets may be more subjective than for liquid assets. Any illiquidity of our assets may make it difficult for us to sell such assets if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we previously recorded our assets. We may also face other restrictions on our ability to liquidate any assets for which we have or could be attributed with material non-public information. If we are unable to sell our assets at favorable prices or at all, it could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. Assets that are illiquid are more difficult to finance, and to the extent that we use leverage to finance assets that become illiquid, we may lose that leverage or have it reduced. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. As a result, our ability to sell assets or vary our portfolio in response to changes in economic and other conditions may be limited by liquidity constraints, which could adversely affect our results of operations and financial condition.

An increase in interest rates may cause a decrease in the amount of certain of our target assets that are available for acquisition, which could adversely affect our ability to acquire target assets that satisfy our investment objectives and to generate income and pay dividends.

Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the amount of target assets available to us for acquisition, which could adversely affect our ability to acquire assets that satisfy our investment objectives. Rising interest rates may also cause our target assets that were issued prior to an interest rate increase to provide yields that are below prevailing market interest rates. If rising interest rates cause us to be unable to acquire a sufficient volume of our target assets with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to generate income and pay dividends may be materially and adversely affected.

The principal and interest payments on our retained MBS are not guaranteed by any entity and, therefore, are subject to increased risks, including credit risk.

We create and retain MBS that will be backed by residential mortgage loans that do not conform to the Fannie Mae or Freddie Mac underwriting guidelines. Consequently, the principal and interest on those MBS are not guaranteed by GSEs such as Fannie Mae and Freddie Mac, or securitized through Ginnie Mae. We do not currently expect to acquire third-party non-Agency MBS.

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

In the event of defaults under mortgage loans backing any of our retained MBS, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan. Additionally, in the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value

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of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan. If borrowers default on the mortgage loans backing our MBS and we are unable to recover any resulting loss through the foreclosure process, our business, financial condition and results of operations and our ability to make distributions to our stockholders could be materially adversely affected.

The Servicer's operations are heavily regulated at the U.S. federal, state and local levels and its failure to comply with applicable regulations could materially adversely affect our expenses and results of operations, and there is no assurance that we could replace the Servicer with servicers that satisfy our requirements or with whom we could enter into agreements on satisfactory terms.

The Servicer must comply with a wide array of U.S. federal, state and local laws and regulations that regulate, among other things, the manner in which it services our mortgage loans and manages our real property in accordance with the servicing agreement, including recent CFPB mortgage servicing regulations promulgated pursuant to the Dodd-Frank Act. These laws and regulations cover a wide range of topics such as licensing; allowable fees and loan terms; permissible servicing and debt collection practices; limitations on forced-placed insurance; special consumer protections in connection with default and foreclosure; and protection of confidential, nonpublic consumer information (privacy). The volume of new or modified laws and regulations has increased in recent years, and states and individual cities and counties continue to enact laws that either restrict or impose additional obligations in connection with certain loan origination, acquisition and servicing activities in those cities and counties. The laws and regulations are complex and vary greatly among the states and localities, and in some cases, these laws are in direct conflict with each other or with U.S. federal law. In addition, these laws and regulations often contain vague standards or requirements, which make compliance efforts challenging. Material changes in these rules and regulations could increase our expenses under the servicing agreement. From time to time, the Servicer may be party to certain regulatory inquiries and proceedings, which, even if unrelated to the residential mortgage servicing operation, may result in adverse findings, fines, penalties or other assessments and may affect adversely its reputation. The Servicer's failure to comply with applicable laws and regulations could adversely affect our expenses and results of operations. If we were to determine to change servicers, there is no assurance that we could find servicers that satisfy our requirements or with whom we could enter into agreements on satisfactory terms. The Servicer's failure to comply with these laws and regulations could also indirectly result in damage to our reputation in the industry and adversely affect our ability to effect our business plan.

The failure of the Servicer to service our assets effectively would materially and adversely affect us.

We will rely on the Servicer to service and manage our assets, including managing collections on our whole mortgage loans and the mortgage loans underlying our retained MBS. If the Servicer is not vigilant in encouraging borrowers to make their monthly payments, the borrowers may be far less likely to make these payments, which could result in a higher frequency of default. If the Servicer takes longer to liquidate non-performing assets, our losses may be higher than originally anticipated. We also will rely on the Servicer to provide all of our property management, lease management and renovation management services associated with the real properties we acquire upon conversion of residential mortgage loans that we will own or that we acquire directly. The failure of the Servicer to effectively service our mortgage loans assets, including the mortgage loans underlying any MBS we may own, REO and other real estate-related assets could negatively impact the value of our investments and our performance.

We rely on the Servicer for our loss mitigation efforts relating to mortgage loan assets, which loss mitigation efforts may be unsuccessful or not cost-effective.

We depend on a variety of services provided by the Servicer, including, among other things, to collect principal and interest payments on our whole mortgage loans as well as the mortgage loans underlying our retained MBS and to perform loss mitigation services. In addition, legislation and regulation that have been enacted or that may be enacted in order to reduce or prevent foreclosures through, among other things,

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loan modifications, may reduce the value of mortgage loans. Mortgage servicers may be required or incentivized by the U.S. Government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the owners of the mortgage loans. In addition to legislation that establishes requirements or creates financial incentives for mortgage loan servicers to modify loans and take other actions that are intended to prevent foreclosures, federal legislation has also been adopted that creates a safe harbor from liability to creditors for servicers that undertake loan modifications and other actions that are intended to prevent foreclosures. Finally, recent laws and regulations, including CFPB regulations, delay the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans or otherwise limit the ability of mortgage servicers to take actions that may be essential to preserve the value of the mortgage loans underlying the MBS. Any such limitations are likely to cause delayed or reduced collections from mortgagors and generally increase servicing costs. As a result of these legislative and regulatory actions, the Servicer may not perform in our best interests or up to our expectations, which could materially adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

There continues to be uncertainty around the timing and ability of servicers to remove delinquent borrowers from their homes, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to owners of the mortgage loans or related MBS. Given the magnitude of the housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures (such as “robo-signing”), mortgage servicers are being held to much higher foreclosure-related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures) throughout the origination, warehouse and securitization processes, mortgage servicers may have difficulty furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure-related costs. Foreclosure-related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside of servicers’ control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non-judicial states. The Servicer’s failure to remove delinquent borrowers from their homes in a timely manner could increase our costs, adversely affect the value of the property and mortgage loans and have a material adverse effect on our results of operations and business.

Changes in applicable laws or noncompliance with applicable law could materially and adversely affect us.

As an owner of real estate, we are required to comply with numerous U.S. federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord-tenant laws and other laws generally applicable to business operations. Noncompliance with laws or regulations could expose us to liability.

Lower revenue growth or significant unanticipated expenditures may result from our need to comply with changes in (i) laws imposing remediation requirements and potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord-tenant laws or (iii) other governmental rules and regulations or enforcement policies affecting the rehabilitation, use and operation of any single-family rental properties we may own, including changes to building codes and fire and life-safety codes.

Our decision whether to rent or sell any REO we acquire upon conversion of non-performing loans will depend on conditions in the relevant geographic markets, and if our assumptions about rental rates and occupancy levels in our markets are not accurate, our operating results and cash available for distribution could be adversely affected.

We intend either to sell or rent the real property, either single-family residences or smaller commercial properties, that we may acquire upon conversion of non-performing mortgage loans. The success of our

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business model will substantially depend on conditions in the applicable sales or rental markets in the relevant geographic markets, including, among other things, occupancy and rent levels. If those assumptions prove to be inaccurate, our operating results and cash available for distribution could be lower than expected, potentially materially.

Rental rates and occupancy levels for single-family residential properties have benefited in recent periods from macroeconomic trends affecting the U.S. economy and residential real estate and mortgage markets in particular, including:

- a tightening of credit that has made it more difficult to finance a home purchase, combined with efforts by consumers generally to reduce their exposure to credit;
- economic and employment conditions that have increased foreclosure rates;
- reduced real estate values that challenged the traditional notion that homeownership is a stable investment; and
- the unprecedented level of vacant housing comprising the REO owned by banks, GSEs, and other mortgage lenders or guarantors.

The single-family rental market is currently significantly larger than in historical periods. We do not expect the favorable trends in the single-family rental market to continue indefinitely. A strengthening of the U.S. economy and job growth, together with the large supply of foreclosed single-family rental properties, the current availability of low residential mortgage rates and government-sponsored programs promoting home ownership, may contribute to a stabilization or reversal of the current trend that favors renting rather than homeownership. In addition, we expect that as investors increasingly seek to capitalize on opportunities to purchase undervalued housing properties and convert them to productive uses, the supply of single-family rental properties will decrease and the competition for tenants will intensify. To the extent that a significant portion of our business becomes single-family rentals, a softening of the rental property market in our markets could adversely affect our operating results and cash available for distribution, potentially materially.

We may incur significant costs in restoring our properties, and we may underestimate the costs or amount of time necessary to complete restorations.

Before determining whether to rent or sell any of our properties, the Servicer will perform a detailed assessment, including an on-site review of such property, to identify the scope of restoration to be completed. Beyond customary repairs, we may undertake improvements designed to optimize overall property appeal and increase the value and rentability of the property when such improvements can be done cost effectively. To the extent properties are occupied, restorations may be postponed until the premises are vacated. We expect that nearly all of our properties will require some level of restoration immediately upon their acquisition or in the future following expiration of a lease or otherwise. We may acquire properties that we plan to restore extensively. In addition, in order to reposition properties in the rental market, we will be required to make ongoing capital improvements and may need to perform significant restorations and repairs from time to time. Consequently, we are exposed to the risks inherent in property restoration, including potential cost overruns, increases in labor and materials costs, delays by contractors in completing work, delays in the timing of receiving necessary work permits and certificates of occupancy and poor workmanship. If our assumptions regarding the cost or timing of restorations across our properties prove to be materially inaccurate, we could be materially and adversely affected.

Contingent or unknown liabilities could materially and adversely affect us.

Our acquisition activities are subject to many risks. We may acquire properties that are subject to unknown or contingent liabilities, including liabilities for or with respect to liens attached to properties, unpaid real estate taxes, utilities or other charges for which a prior owner remains liable, clean-up or remediation of environmental conditions

or code violations, claims of vendors or other persons dealing with the acquired properties and tax liabilities, among other things. In each case, our acquisition may be without any, or with only limited, recourse with respect to unknown or contingent liabilities or conditions. As a result, if any such liability were to arise relating to our properties, or if any adverse condition exists

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with respect to our properties that is in excess of our insurance coverage, we might have to pay substantial sums to settle or cure it, which could materially and adversely affect us. The properties we acquire may also be subject to covenants, conditions or restrictions that restrict the use or ownership of such properties, including zoning laws and regulations and prohibitions on leasing or requirements to obtain the approval of home owner associations prior to leasing. We may not discover such restrictions during the acquisition process and such restrictions may adversely affect our ability to operate such properties as we intend.

Poor tenant selection and defaults by our tenants may materially and adversely affect us.

Our success with any REO that we may seek to rent will depend, in large part, upon our Servicer's ability to attract and retain qualified tenants for our properties, whether residential or commercial. This will depend, in turn, upon our ability to screen applicants, identify good tenants and avoid tenants who may default. We will inevitably make mistakes in our selection of tenants, and we may rent to tenants whose default on our leases or failure to comply with the terms of the lease or other regulations could materially and adversely affect us and the quality and value of our properties. For example, tenants may default on payment of rent, make unreasonable and repeated demands for service or improvements, make unsupported or unjustified complaints to regulatory or political authorities, make use of our properties for illegal purposes, damage or make unauthorized structural changes to our properties that may not be fully covered by security deposits, refuse to leave the property when the lease is terminated, engage in domestic violence or similar disturbances, disturb nearby residents with noise, trash, odors or eyesores, fail to comply with applicable regulations, sub-let to less desirable individuals in violation of our leases or permit unauthorized persons to occupy the property.

In addition, defaulting tenants will often be effectively judgment-proof. The process of evicting a defaulting tenant from a family residence can be adversarial, protracted and costly. Furthermore, some tenants facing eviction may damage or destroy the property. Damage to our properties may significantly delay re-leasing after eviction, necessitate expensive repairs or impair the rental revenue or value of the property. In addition, we will incur turnover costs associated with re-leasing the properties, such as marketing expense and brokerage commissions, and will not collect revenue while the property is vacant. Although we will attempt to work with tenants to prevent such damage or destruction, there can be no assurance that we will be successful in all or most cases. Such tenants will not only cause us not to achieve our financial objectives for the properties in which they live, but may subject us to liability, and may damage our reputation with our other tenants and in the communities where we do business.

A significant uninsured property or liability loss could have a material adverse effect on us.

We carry commercial general liability insurance and property insurance with respect to our rental properties on terms we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it economically impractical. If an uninsured property loss or a property loss in excess of insured limits were to occur, we could lose our capital invested in a single-family rental property or group of rental properties as well as the anticipated future revenues from such single-family rental property or group of properties. If an uninsured liability to a third party were to occur, we would incur the cost of defense and settlement with or court ordered damages to that third party. A significant uninsured property or liability loss could materially and adversely affect us.

We may change our investment strategy, investment guidelines and asset allocation without notice or stockholder consent which may result in riskier investments. In addition, our charter provides that our board of directors may authorize us not to seek to elect to be taxed as a REIT or to revoke or otherwise terminate our REIT election without the approval of our stockholders.

Our board of directors has the authority to change our investment strategy or asset allocation at any time without notice to or consent from our stockholders. To the extent that our investment strategy changes in the future, we may make investments that are different from, and possibly riskier than, the investments described in this prospectus. A change in our investment or leverage strategy may increase our exposure to interest rate and real estate market fluctuations or require us to sell a portion of our existing investments, which could result in gains or losses and therefore increase our earnings volatility. Decisions to employ additional leverage in executing our investment strategies could increase the risk inherent in our asset

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acquisition strategy. Furthermore, a change in our asset allocation could result in our allocating assets in a different manner than as described in this prospectus.

In addition, our charter provides that our board of directors may authorize us not to seek to elect to be taxed as a REIT or to revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to qualify as a REIT. These changes could adversely affect our financial condition, results of operations, the market value of our common stock, and our ability to make distributions to our stockholders. Our inability to compete effectively in a highly competitive market could adversely affect our ability to implement our business strategy, which could materially and adversely affect us.

Our profitability depends, in large part, on our ability to acquire targeted assets at favorable prices. We face significant competition when acquiring re-performing and non-performing loans and our other targeted assets. Our competitors include other mortgage REITs, financial companies, public and private funds, hedge funds, commercial and investment banks and residential and commercial finance companies. Many of our competitors are substantially larger and have considerably greater access to capital and other resources than we do. Furthermore, new companies with significant amounts of capital have recently been formed or have raised additional capital, and may continue to be formed and raise additional capital in the future, and these companies may have objectives that overlap with ours, which may create competition for assets we wish to acquire. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets to acquire and establish more relationships than us. We also may have different operating constraints from those of our competitors including, among others, tax-driven constraints such as those arising from our intention to qualify and maintain our qualification as a REIT and restraints imposed on us by our attempt to comply with certain exclusions from the definition of an “investment company” or other exemptions under the Investment Company Act. Furthermore, competition for assets in our targeted asset classes may lead to the price of such assets increasing, may reduce the number of attractive re-performing and non-performing loan investment opportunities available to us or increase the bargaining power of asset owners seeking to sell, which would increase the prices for these assets. If such events occur, our ability to implement our business strategy could be adversely affected, which could materially and adversely affect us. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

Our ability to make distributions to our stockholders will depend on our operating results, our financial condition and other factors, and we may not be able to make regular cash distributions at a fixed rate or at all under certain circumstances.

We intend to make distributions to our stockholders in amounts such that we distribute substantially all of our taxable income in each year (subject to certain adjustments). This distribution policy will enable us to avoid being subject to U.S. federal income tax on our taxable income that we distribute to our stockholders. However, our ability to make distributions will depend on our results of operations, which may experience uneven cash flow because we will hold re-performing and non-performing loans our earnings, applicable law, our financial condition and such other factors as our board of directors may deem relevant from time to time. We will declare and make distributions to our stockholders only to the extent approved by our board of directors.

We are highly dependent on communications and information systems operated by third parties, and systems failures could significantly disrupt our business and negatively impact our operating results.

Our business is highly dependent on communications and information systems that allow us to monitor, value, buy, sell, finance and hedge our investments. These systems are operated by third parties, including our affiliates, and, as a result, we have limited ability to ensure continued operation. In the event of systems failure or interruption, we will have limited ability to affect the timing and success of systems restoration. Any failure or interruption of our systems could cause delays or other problems in our securities trading activities which could have a material adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we, through the Servicer, may acquire and store sensitive data on our network, such as our proprietary business information and personally identifiable information of borrowers obligated on loans and our prospective and current mortgages and tenants. The secure processing and maintenance of this information is critical to our business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations and the services we provide to customers or damage our reputation, which could materially and adversely affect us.

Risks Related to Leverage and Hedging

We use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our stockholders and increase losses when economic conditions are unfavorable.

We use leverage to finance our investment operations and to enhance our financial returns and potentially to pay dividends. Sources of leverage may include bank credit facilities, warehouse lines of credit, structured financing arrangements (including securitizations) and repurchase agreements, among others. We may also seek to raise additional capital through public or private offerings of debt or equity securities, depending upon market conditions. We may use repurchase agreements to acquire certain assets, including our internally developed MBS, until we can securitize the assets. Because repurchase agreements are short-term borrowing, typically with 30- to 90-day terms although some may have terms up to 364 days, they are more subject to volatility in interest rates and lenders willingness to extend such borrowings. We currently do not expect a majority of our borrowings to be repurchase agreements or other short-term borrowings. Through the use of leverage, we may acquire positions with market exposure significantly greater than the amount of capital committed to the transaction. We intend to use leverage for the primary purpose of financing acquisitions for our portfolio and not for the purpose of speculating on changes in interest rates. We do not have a targeted debt-to-equity ratio generally or for specific asset classes, although we currently expect that our debt-to-equity ratio will be within a range of 1:1 to 2:1. We may, however, be limited or restricted in the amount of leverage we may employ by the terms and provisions of any financing or other agreements that we may enter into in the future, and we may be subject to margin calls as a result of our financing activity. Our ability to achieve our investment and leverage objectives will depend on our ability to borrow money in sufficient amounts and on favorable terms and, as necessary, to renew or replace borrowings as they mature.

Leverage will magnify both the gains and the losses of our positions. Leverage will increase our returns as long as we earn a greater return on investments purchased with borrowed funds than our cost of borrowing such funds. However, if we use leverage to acquire an asset and the value of the asset decreases, the leverage will increase our losses. Even if the asset increases in value, if the asset fails to earn a return that equals or exceeds our cost of borrowing, the leverage will decrease our returns.

We may be required to post large amounts of cash as collateral or margin to secure our repurchase commitments. In the event of a sudden, precipitous drop in value of our financed assets, we might not be able to liquidate assets quickly enough to repay our borrowings, further magnifying losses. Even a small decrease in the value of a leveraged asset may require us to post additional margin or cash collateral. This may decrease the cash available to us for distributions to stockholders, which could adversely affect the price of our common stock. In addition, our debt service payments will reduce cash flow available for distribution to stockholders. We may not be able to meet our debt service obligations. To the extent that we cannot meet our debt service obligations, we risk the loss of some or all of our assets to sale to satisfy our debt obligations.

To the extent we are compelled to liquidate qualifying real estate assets to repay debts, our compliance with the REIT rules regarding our assets and our sources of income could be negatively affected, which

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could jeopardize our ability to qualify and maintain our qualification as a REIT. Failing to qualify as a REIT would cause us to be subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income and decrease profitability and cash available for distributions to stockholders.

We may not be able to achieve our optimal leverage or target leverage ratios.

We use leverage as a strategy to increase the return to our investors. However, we may not be able to achieve our desired leverage for any of the following reasons:

- we determine that the leverage would expose us to excessive risk;
- our lenders do not make funding available to us at acceptable rates or on acceptable terms; and
- our lenders require that we provide additional collateral to cover our borrowings.

In addition, if we exceed our target leverage ratios, the potential adverse impact on our financial condition and results of operation described above may be amplified.

Non-recourse long-term financing structures such as securitizations expose us to risks that could result in losses to us. We have used and intend to continue to use securitization and other non-recourse long-term financing for our investments if, and to the extent, available. In such structures, lenders typically have only a claim against the assets included in the securitizations rather than a general claim against the owner-entity. Prior to each such financing, we may seek to finance our investments with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to acquire, during the period that any short-term facilities are available, sufficient eligible assets or securities to maximize the efficiency of a securitization.

We also bear the risk that we may not be able to obtain new short-term facilities or may not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient eligible assets or securities for a securitization. In addition, conditions in the capital markets may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets or securities. While we retain and expect to retain the unrated equity component of securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations may increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default. Additionally, the securitization of our portfolio could magnify our exposure to losses because any equity interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses. An inability to securitize our portfolio may adversely affect our performance and our ability to grow our business.

Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us as an entity. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our investments on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

Our failure to comply with covenants contained in any debt agreement, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our operating results and our financial condition.

We may enter into debt facilities that will require us to comply with various operational, reporting and other covenants that limit us from engaging in certain types of transactions. If there were an event of default under our debt facilities that was not cured or waived, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be immediately due and payable. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or if accelerated, upon an event of default, or that we would be able to refinance or restructure the payments on those debt instruments.

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Hedging against interest rate changes and other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Subject to qualifying and maintaining our qualification as a REIT and exemption from registration under the Investment Company Act, we may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity would vary in scope based on the level and volatility of interest rates, the types of liabilities and assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges 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 assets or liabilities being hedged;
- to the extent hedging transactions do not satisfy certain provisions of the Code or are not made through a TRS, the amount of income that a REIT may earn from hedging transactions to offset interest rate losses is limited by the Code provisions governing REITs;
- the value of derivatives used for hedging is adjusted from time to time in accordance with accounting rules to reflect changes in fair value; and downward adjustments, or “mark-to-market losses,” would reduce our stockholders’ equity;
- the credit quality of the hedging counterparty 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 hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

Our hedging transactions, which would be intended to limit losses, may actually adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

Our use of certain hedging techniques may expose us to counterparty risks.

If an interest rate swap counterparty cannot perform under the terms of the interest rate swap, we may not receive payments due under that swap, and thus, we may lose any unrealized gain associated with the interest rate swap. The hedged liability could cease to be hedged by the interest rate swap. Additionally, we may also risk the loss of any collateral we have pledged to secure our obligations under the interest rate swap if the counterparty becomes insolvent or files for bankruptcy. If we are required to sell our derivatives under these circumstances, we may incur losses. Similarly, if an interest rate cap counterparty fails to perform under the terms of the interest rate cap agreement, in addition to not receiving payments due under that agreement that would off-set our interest expense, we could also incur a loss for all remaining unamortized premium paid for that agreement.

Hedging instruments and other derivatives may not, in some cases, be traded on regulated exchanges, or may not be guaranteed or regulated by any U.S. or foreign governmental authorities and involve risks and costs that could result in material losses.

Hedging instruments and other derivatives involve risk because they may not, in some cases, be traded on regulated exchanges and may not be guaranteed or regulated by any U.S. or foreign governmental authorities. Not all of the instruments that we will use will be executed on a regulated exchange. To the extent that we enter into any over-the-counter instruments that are not required to be, or accepted for, clearing, we may be subject to counterparty

risks. We are not restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with one counterparty. Furthermore, our Manager has only a limited internal credit function to evaluate the creditworthiness of its counterparties, mainly relying on its experience with such counterparties and their general reputation as participants in these markets. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default under the hedging agreement. Default by a party with whom

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we enter into a hedging transaction may result in losses and may force us to re-initiate similar hedges with other counterparties at the then-prevailing market levels. Generally we will seek to reserve the right to terminate our hedging transactions upon a counterparty's insolvency, but absent an actual insolvency, we may not be able to terminate a hedging transaction without the consent of the hedging counterparty, and we may not be able to assign or otherwise dispose of a hedging transaction to another counterparty without the consent of both the original hedging counterparty and the potential assignee. If we terminate a hedging transaction, we may not be able to enter into a replacement contract in order to cover our risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and therefore we may be required to maintain any hedging position until exercise or expiration, which could materially adversely affect our business, financial condition and results of operations.

Changes in regulations relating to swaps activities may cause us to limit our swaps activity or subject us to additional disclosure, recordkeeping, and other regulatory requirements.

The enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. New regulations have been promulgated by U.S. and foreign regulators to strengthen oversight of derivative contracts. Any actions taken by regulators could constrain our strategy and could increase our costs, either of which could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. In particular, the Dodd-Frank Act requires most derivatives to be executed on a regulated market and cleared through a central counterparty, which may result in increased margin requirements and costs. On December 7, 2012, the CFTC issued a No-Action Letter that provides mortgage REITs relief from such registration, or No-Action Letter, as a commodity pool to the extent that they meet certain conditions and submit a claim indicating that they will rely on such relief. We believe we meet the conditions set forth in the No-Action Letter and we have relied on this no-action relief from commodity pool registration.

However, if in the future we do not meet the conditions set forth in the No-Action Letter or the relief provided by the No-Action Letter becomes unavailable for any other reason, we may need to seek to obtain another exemption from registration.

Risks Related to Regulatory and Legislative Actions

We operate in a highly regulated industry and continually changing U.S. federal, state and local laws and regulation could materially adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders.

The residential mortgage industry is highly regulated. We and our Manager are required to comply with a wide array of U.S. federal, state and local laws and regulations that regulate, among other things, the manner in which each of us conducts our businesses. These regulations directly impact our business and require constant compliance, monitoring and internal and external audits. A material failure to comply with any of these laws or regulations could subject us and our Manager to lawsuits or governmental actions and damage our reputation, which could materially adversely affect our business, financial condition and results of operations.

U.S. federal, state and local governments have recently proposed or enacted numerous new laws, regulations and rules related to mortgage loans, including servicing and collection of mortgage loans. Laws, regulations, rules and judicial and administrative decisions relating to mortgage loans include those pertaining to real estate settlement procedures, equal credit opportunity, fair lending, fair credit reporting, truth in lending, fair debt collection practices, service members protections, compliance with net worth and financial statement delivery requirements, compliance with U.S. federal and state disclosure and licensing requirements, the establishment of maximum interest rates, finance charges and other charges, qualified mortgages, secured transactions, payment processing, escrow, loss mitigation, collection, foreclosure, repossession and claims-handling procedures, and other trade practices and privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers. Our service providers, including the Servicer and outside foreclosure counsel retained to process foreclosures, must also comply with many of these legal requirements.

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In particular, the Dodd-Frank Act represents a comprehensive overhaul of the financial services industry in the United States and includes, among other things (i) the creation of a Financial Stability Oversight Council to identify emerging systemic risks posed by financial firms, activities and practices, and to improve cooperation among U.S. federal agencies, (ii) the creation of the CFPB, authorized to promulgate and enforce consumer protection regulations relating to financial products and services, including mortgage lending and servicing, and to exercise supervisory authority over participants in mortgage lending and mortgage servicing, (iii) the establishment of strengthened capital and prudential standards for banks and bank holding companies, (iv) enhanced regulation of financial markets, including the derivatives and securitization markets, and (v) amendments to the Truth in Lending Act, or TILA, and the Real Estate Settlement Procedures Act, or RESPA, aimed at improving consumer protections with respect to mortgage originations and mortgage servicing, including disclosures, originator compensation, minimum repayment standards, prepayment considerations, appraisals and loss mitigation and other servicing requirements.

In addition, although we do not intend to acquire MBS in which the underlying mortgage loans are guaranteed or insured by any GSE or U.S. Governmental agency, actions taken by or proposed to be taken by, among others, FHFA, the U.S. Treasury, the Federal Reserve Board or other U.S. governmental agencies that are intended to regulate the origination, underwriting guidelines, servicing guidelines, servicing compensation and other aspects of mortgage loans guaranteed by the GSEs or U.S. governmental agencies (known as “Agency RMBS”) can have indirect and sometimes direct effects on our business and business model, results of operations and liquidity. For example, loan originators and servicers, investors and other participants in the mortgage securities markets may use regulatory guidelines intended for Agency RMBS as guidelines or operating procedures in respect of non-Agency RMBS. In addition, changes in underwriting guidelines for Agency RMBS generally affect the supply of similar or complementary non-Agency RMBS.

Our or our Manager’s failure to comply or cause the Servicer to comply with these laws, regulations and rules may result in reduced payments by borrowers, modification of the original terms of mortgage loans, permanent forgiveness of debt, delays in the foreclosure process, increased servicing advances, litigation, enforcement actions, and repurchase and indemnification obligations.

We expect that legislative and regulatory changes will continue in the foreseeable future, which may increase our operating expenses, either to comply with applicable law, to deal with regulatory examinations or investigations, or to satisfy our lenders and investors that we are in compliance with those laws, regulations and rules that are applicable to our business. Any of these new, or changes in, laws, regulations or rules could adversely affect our business, financial condition and results of operations.

We may be unable to operate within the parameters that allow us to be excluded from regulation as a commodity pool operator, which would subject us to additional regulation and compliance requirements, and could materially adversely affect our business and financial condition.

Recently adopted rules under the Dodd-Frank Act establish a comprehensive new regulatory framework for derivative contracts commonly referred to as “swaps.” Under the Dodd-Frank Act, any investment fund that trades in swaps may be considered a “commodity pool,” which would cause its operators to be regulated as a “commodity pool operator,” or CPO. In December 2012, the Commodity Futures Trading Commission issued the No-Action Letter, giving relief to operators of mortgage REITs from the requirement to register as a CPO. In order to qualify, we must, among other non-operation requirements: (1) limit our initial margin and premiums required to establish our swap or futures positions to no more than 5% of the fair market value of our total assets; and (2) limit our net income derived annually from our swaps and futures positions that are not “qualifying hedging transactions” to less than 5% of our gross income. The need to operate within these parameters could limit the use of swaps by us below the level that we would otherwise consider optimal or may lead to the registration of our company or our directors as commodity pool operators, which will subject us to additional regulatory oversight, compliance and costs.

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Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans. In the event that any such licensing requirement is applicable and we are not able to obtain such licenses in a timely manner or at all, our ability to implement our business strategy could be adversely affected, which could materially and adversely affect us. Certain jurisdictions require a license to purchase, hold, enforce or sell residential mortgage loans. We currently do not hold any such licenses, and there is no assurance that we will be able to obtain them or, if obtained, that we will be able to maintain them. In connection with these licenses we would be required to comply with various information reporting and other regulatory requirements to maintain those licenses, and there is no assurance that we will be able to satisfy those requirements on an ongoing basis. Our failure to obtain or maintain such licenses or our inability to enter into another regulatory-compliant structure, such as establishing a trust with a federally chartered bank as trustee to purchase and hold the residential mortgage loans, could restrict our ability to invest in loans in these jurisdictions if such licensing requirements are applicable. In lieu of obtaining such licenses, we may contribute our acquired re-performing and non-performing residential mortgage loans to one or more wholly owned trusts whose trustee is a national bank, which may be exempt from state licensing requirements, or the seller of such loans may continue to hold the loans on our behalf until we obtain the applicable state license. If required, we will form one or more subsidiaries that will apply for necessary state licenses. If these subsidiaries obtain the required licenses, any trust holding loans in the applicable jurisdictions may transfer such loans to such subsidiaries, resulting in these loans being held by a state-licensed entity. There can be no assurance that we will be able to obtain the requisite licenses in a timely manner or at all or in all necessary jurisdictions, or that the use of the trusts will reduce the requirement for licensing, any of which could limit our ability to invest in residential mortgage loans. Our failure to obtain and maintain required licenses may expose us to penalties or other claims and may affect our ability to acquire an adequate and desirable supply of mortgage loans to conduct our securitization program and, as a result, could harm our business.

We could be subject to liability for potential violations of predatory lending laws, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Residential mortgage loan originators and servicers are required to comply with various U.S. federal, state and local laws and regulations, including anti-predatory lending laws and laws and regulations imposing certain restrictions on requirements on “high cost” loans. Failure of our Manager or service providers to comply with these laws could subject us, as an assignee or purchaser of the related residential mortgage loans, to monetary penalties and could result in impairment in the ability to foreclose such loans or the borrowers rescinding the affected residential mortgage loans. Lawsuits have been brought in various states making claims against assignees or purchasers of high cost loans for violations of state law. Named defendants in these cases have included numerous participants within the secondary mortgage market. If the loans are found to have been originated in violation of predatory or abusive lending laws, we could incur losses, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Risks Related to Our Management and Our Relationship with Our Manager, the Servicer and Aspen

We have conflicts of interest with our Manager, the Servicer and Aspen, and certain members of our board of directors, as well as our management team, have, or could have in the future, conflicts of interest due to their respective relationships with these entities, and such conflicts could be resolved in a manner adverse to us.

Conflicts between us and our Manager. Our Manager manages our business, investment activities and affairs pursuant to the management agreement. This agreement was not negotiated at arm’s-length and, accordingly, could contain terms, including the basis of calculation of the amount of the fees payable to our Manager, that are less favorable to us than similar agreements negotiated with unaffiliated third parties. Furthermore, the calculation of our Manager’s incentive fee is based on the dividends declared by our board of directors. In evaluating investments and other management strategies, the opportunity to earn incentive compensation may lead our Manager to place undue emphasis on the maximization of dividends at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

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As an externally managed REIT, we have no management or employees and are entirely managed by our Manager, which negotiates all our agreements and deals with all our contractual counterparties on our behalf. For example, our Manager acts for us in connection with the servicing agreement, including monitoring the performance of Gregory under the agreement and exercising any available rights or remedies on our behalf. Our Manager and Gregory are affiliates. Each of our officers is an officer of our Manager or the Servicer.

Conflicts between us and the Servicer. The servicing agreement was also not negotiated at arms'-length and could contain terms that are less favorable to us than similar agreements negotiated with unaffiliated third parties. In addition, the Servicer is generally not prohibited from providing similar services to other owners of mortgage loans and real estate assets, including other affiliates of Aspen.

Conflicts presented by our acquisition of our initial portfolio through acquisition of assets of Little Ajax II. In July 2014, we acquired our initial portfolio of mortgage-related assets by acquiring 82% of the limited liability company interests of Little Ajax II from Flexpoint REIT Investor, the Wellington Management Institutional Investor and their respective affiliates. In September, we acquired the remaining interests in this initial mortgage-related asset portfolio from Little Ajax II and from Gregory. While we believe that the purchase price for these assets was substantially equal on a pro rata basis to the original purchase prices paid by Little Ajax II and Gregory for their portions of the assets, the transactions were not negotiated at arms'-length and could contain terms less favorable to us than terms of similar agreements negotiated with unaffiliated third parties. For additional information, see "Structure and Formation Transactions" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." In addition, prior to any securitization of our assets, Gregory acts as the holder of record for mortgage loans in states in which neither we nor our subsidiaries can own the assets directly because we do not have the necessary licenses. We or our subsidiaries hold 95% participation interests in those loans and when we acquire such loans to securitize them we expect to acquire the entirety of such loans at the same purchase price as Gregory initially acquired such loans. For additional information, see "Business—Our Portfolio."

Particular risks associated with our license for the name "Great Ajax." If the management agreement expires or is terminated for any reason, the trademark license agreement pursuant to which we license the mark "Great Ajax" from Aspen will also terminate within 30 days. Upon any such termination, we would be required to cease doing business using the name "Great Ajax" and would have to change our corporate name, both of which could have a material adverse effect upon our business. All goodwill associated with our use of the mark "Great Ajax" is not our asset and such goodwill cannot be transferred by us to a third party. In addition, we need to obtain the consent of Aspen before we are permitted to register the licensed mark in any jurisdiction in the world. Failure to obtain such consent could have a material adverse effect on us, including our ability to expand our business into new jurisdictions.

Our Management team may engage in other activities and may have interests that conflict with ours. Our Manager and members of its management team may engage in any other business or render similar or different services to others including, without limitation, the direct or indirect sponsorship or management of other investment-based accounts or commingled pools of capital, so long as its services to us are not impaired thereby; provided that it may not engage in any such business or provide such services to any other entity that invests in the asset classes in which we intend to invest so long as we have on hand an average of \$25 million in capital available for investment over the previous two fiscal quarters or our independent directors determine that we have the ability to raise capital at or above our most recent book value. If this occurs, our Manager or members of its management team may devote a disproportionate amount of time and other resources to acquire or manage properties owned by others. In addition, Aspen has agreed, for itself and its subsidiaries, including Gregory, to similar restrictions on their ability to compete with us. We will seek to manage any potential conflicts through provisions of our agreements with them and through oversight by independent members of our board of directors or general dispute resolution methods. However, there can be no assurance that such measures will be effective, that we will be able to resolve all conflicts with our Manager, Gregory and Aspen or that the resolution of any such conflicts will be no less favorable to us than if we were dealing with unaffiliated third parties.

We own a 19.8% equity interest in our Manager through Thetis TRS. As of April 10, 2015, the Flexpoint REIT Investor and the Wellington Investors or affiliates thereof owned 18.7% and 12.1%,

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respectively, of our outstanding common stock (assuming redemption of OP Units on a 1-for-1 basis into shares of our common stock). In addition, they each own 26.73% of our Manager, and 9.8% of GA-FS. Mr. Mendelsohn controls 50% of the manager of Aspen, which is the direct parent of our Manager and GA-FS, and has certain economic and/or management rights with respect to 7.8% of the interests in Aspen. Furthermore, each of our executive officers is an executive officer of our Manager or the Servicer and has interests in our relationship with them that may be different from the interests of our stockholders. In particular, these individuals, other than the chief financial officer, have a direct interest in the financial success of our Manager or the Servicer, which may encourage these individuals to support strategies in furtherance of their financial success that adversely affect us. Such ownership creates conflicts of interest when such directors or members of our management team are faced with decisions that involve us and our Manager, Gregory, Aspen or any of their respective subsidiaries. See “Certain Relationships and Related Party Transactions—Agreement with Anchor Investors” and “Principal Stockholders.”

Our board of directors has approved a very broad investment policy and guidelines for our Manager and will not review or approve each investment decision. We may change our investment policy and guidelines without stockholder consent, which may materially and adversely affect the market price of our common stock and our ability to make distributions to our stockholders.

Our Manager is authorized to follow a very broad investment policy and guidelines and, therefore, has great latitude in determining the types of assets that are proper investments for us, as well as the individual investment decisions. In the future, our Manager may make investments with lower rates of return than those anticipated under current market conditions and/or may make investments with greater risks to achieve those anticipated returns. Our board of directors will periodically review our investment policy and guidelines and our investment portfolio but will not review or approve each proposed investment by our Manager unless it falls outside the scope of our previously approved investment policy and guidelines or constitutes a related party transaction.

In addition, in conducting periodic reviews, our board of directors will rely primarily on information provided to it by our Manager. Furthermore, our Manager may use complex strategies. Transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors. In addition, we may change our investment policy and guidelines and targeted asset classes at any time without the consent of our stockholders, and this could result in our making investments that are different in type from, and possibly riskier than, our current investments or the investments currently contemplated. Changes in our investment policy and guidelines and targeted asset classes may increase our exposure to interest rate risk, counterparty risk, default risk and real estate market fluctuations, which could materially and adversely affect us.

We depend on our Manager. We may not be able to retain our engagement of our Manager under certain circumstances, which could materially and adversely affect us. Termination of our Manager by us without cause is difficult and costly and our agreements with Gregory may simultaneously terminate or be terminated, as applicable. Our success depends upon our relationships with and the performance of our Manager and its key personnel. Key personnel may leave its employment or may become distracted by financial or operational issues in connection with their business and activities unrelated to us and over which we have no control or may fail to perform for any reason. Our Manager may engage in any other business or render similar or different services to others, including, without limitation, the direct or indirect sponsorship or management of other investment-based accounts or commingled pools of capital, so long as its services to us are not impaired thereby; provided that our Manager may not engage in any such business or provide such services to any other entity that invests in the asset classes in which we intend to invest so long as we have on hand an average of \$25 million in capital available for investment over the previous two fiscal quarters or our independent directors determine that we have the ability to raise capital at or above our most recent book value. Aspen has agreed for itself and its subsidiaries to similar restrictions. In the event our Manager provides its services to a competitor, it may be difficult for us to secure a suitable replacement to our Manager on favorable terms, or at all or maintain our engagement of our Manager. In the event that the management agreement is terminated for any reason or our Manager is unable to retain its key personnel, it may also be difficult for us to secure a suitable replacement to our Manager on favorable terms, or at all.

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Neither we nor our Manager may terminate the management agreement during the first 24 months of its term except “for cause” as defined therein. If we terminate the management agreement without cause thereafter or our Manager terminates the management agreement due to our default in the performance of any material term of the management agreement, we will be required to pay a significant termination fee. In addition, the management agreement will automatically terminate at the same time as the servicing agreement if the servicing agreement is terminated for any reason. If the management agreement expires or is earlier terminated, we and Gregory have certain rights to terminate the servicing agreement and the trademark license agreement will automatically terminate. The occurrence of any of the above-described events could materially and adversely affect us.

The incentive fee payable to our Manager under the management agreement will be payable quarterly based on the dividends declared by our board of directors and may cause our Manager to select investments in more risky assets to increase its incentive compensation.

Our Manager will be entitled to receive incentive compensation based upon the dividends declared by our board of directors in its discretion (together with the amount of distributions paid to holders of OP Units by our operating partnership, other than OP Units held by us as a limited partner). In evaluating investments and other management strategies, the opportunity to earn incentive compensation may lead our Manager to place undue emphasis on the maximization of dividends at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

The servicing agreement was not negotiated at arms'-length.

Under the servicing agreement, the Servicer provides us with critically important services, including, among many others, the servicing of our whole mortgage loans, including the mortgage loans underlying our MBS, loan modification services, assisted deed-in-lieu of foreclosure services, assisted deed-for-lease services and other loss mitigation services with respect to our mortgage loans and property management, leasing management and renovation management services with respect to our real property assets and assistance in finding third party financing for such properties. The servicing agreement has an initial term of 15 years. Neither we nor the Servicer may terminate the servicing agreement without cause during the first 24 months of its term. Following such 24-month period, we may not terminate the servicing agreement except for cause or if we terminate the management agreement for cause. Following such 24-month period, the Servicer may terminate the servicing agreement without cause by providing written notice to us no later than 180 days prior to December 31 of any year, and the servicing agreement will terminate effective on the December 31 next following the delivery of such notice. The servicing agreement also provides that the Servicer may terminate the agreement within 180 days after receiving notice that the management agreement has terminated, without any termination payment by us if the management agreement has been terminated for cause. If the management agreement has been terminated other than for cause and the Servicer terminates the servicing agreement, we will be required to pay a significant termination fee. The management agreement will automatically terminate at the same time as the servicing agreement if the servicing agreement is terminated for any reason. Upon any termination of the servicing agreement, it may be difficult for us to secure suitable replacements or we may secure alternative servicers with less effective servicing platforms or at greater expense. In addition, the Servicer has no liability to us for its negligence in performing services for us under the servicing agreement, unless that negligence rises to the level of gross negligence or willful misconduct. The material terms of the servicing agreement are further described in “Certain Relationships and Related Party Transactions—Gregory Servicing Agreement.” The servicing agreement was not negotiated at arms'-length; accordingly, it may contain terms that are less favorable to us than agreements negotiated with one or more unaffiliated third parties might contain.

Failure of Gregory to effectively perform its obligations under the servicing agreement could materially and adversely affect us.

We are contractually obligated to service the residential mortgage loans that we acquire and we must operate or provide for the operation of the real estate assets we will own. We do not have any employees, a servicing platform, licenses or technical resources necessary to service our acquired loans. Consequently, we

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have engaged Gregory to service our mortgage loans and other real estate assets. If for any reason Gregory is unable to service these loans or real estate assets at the level and/or the cost that we anticipate, or if we fail to pay Gregory or otherwise default under the servicing agreement, and Gregory ceases to act as our servicer, alternate service providers may not be readily available on favorable terms, or at all, which could adversely affect our Manager's performance under the management agreement and our business and results of operations. Gregory's failure to perform the services under the servicing agreement would have a material adverse effect on us.

Our Manager has a contractually defined duty to us rather than a fiduciary duty.

Under the management agreement, our Manager has a contractual, as opposed to a fiduciary, relationship with us that limits its obligations to us to those specifically set forth in the management agreement. The ability of our Manager and its officers and employees to engage in other business activities may reduce the time it spends managing us. In addition, unlike the relationship we have with our directors, there is no statutory standard of conduct under the Maryland General Corporation Law for officers of a Maryland corporation. Officers of a Maryland corporation, including our officers who are employees of our Manager, are subject to general agency principles including the exercise of reasonable care and skill in the performance of their responsibilities as well as the duties of loyalty, good faith and candid disclosure.

Risks Related to Our Organizational Structure

Maintenance of our exclusion from regulation as an investment company under the Investment Company Act imposes significant limitations on our operations.

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries is required to register as an investment company under the Investment Company Act. We are organized as a holding company and we conduct our business primarily through wholly owned subsidiaries of our operating partnership. Neither we nor our operating partnership nor Great Ajax Funding is an investment company under Section 3(a)(1)(C). The securities issued by our subsidiaries that are excluded from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, together with other investment securities we may own, cannot exceed 40% of the value of all our assets (excluding U.S. government securities and cash) on an unconsolidated basis. This requirement limits the types of businesses in which we may engage and the assets we may hold. Our 19.8% equity interest in our Manager is held by Thetis TRS, which is a special purpose subsidiary of our operating partnership, and Thetis TRS may rely on Section 3(c)(1) or Section 3(c)(7) for its Investment Company Act exclusion and, therefore, our interest in such subsidiary would constitute an "investment security" for purposes of determining whether we pass the 40% test (see "Business—Operating and Regulatory Structure— Investment Company Act Exclusion" for additional information regarding the 40% test).

In connection with the Section 3(a)(1)(C) analysis, the determination of whether an entity is a majority-owned subsidiary of our company is made by us. The Investment Company Act defines a majority-owned subsidiary of a person as a company 50% or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority-owned subsidiary of such person. The Investment Company Act further defines voting security as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. We treat companies in which we own at least a majority of the outstanding voting securities as majority-owned subsidiaries. We also treat the securitization trusts as majority-owned subsidiaries of Great Ajax Funding even though none of the securities issued by such trusts that are held by Great Ajax Funding meets the definition of voting securities under the Investment Company Act. We reached our conclusion in reliance on an opinion of counsel that the Trust Certificates issued by each securitization trust are the functional equivalent of voting securities and that, in any event, each securitization trust should be considered to be a majority-owned subsidiary of Great Ajax Funding. We have not asked the SEC staff for concurrence of our analysis, our treatment of such securities as voting securities, or whether the securitization trusts, or any other of our subsidiaries, may be treated in the manner in which we intend, and it is possible that the SEC staff could disagree with any of our determinations. If the SEC staff were to disagree with our treatment of one or more companies as majority-owned subsidiaries, we would need to adjust our strategy and our assets. Any such adjustment in our strategy could have a material adverse effect on us.

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Certain of our subsidiaries may rely on the exclusion provided by Section 3(c)(5)(C) under the Investment Company Act. Section 3(c)(5)(C) of the Investment Company Act is designed for entities “primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” This exclusion generally requires that at least 55% of the entity’s assets on an unconsolidated basis consist of qualifying real estate assets and at least 80% of the entity’s assets consist of qualifying real estate assets or real estate-related assets. These requirements limit the assets those subsidiaries can own and the timing of sales and purchases of those assets.

To classify the assets held by our subsidiaries as qualifying real estate assets or real estate-related assets, we will rely on no-action letters and other guidance published by the SEC staff regarding those kinds of assets, as well as upon our analyses (in consultation with outside counsel) of guidance published with respect to other types of assets. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the SEC or its staff regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations. In fact, in August 2011, the SEC published a concept release in which it asked for comments on this exclusion from regulation. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exemption from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could further inhibit our ability to pursue the strategies that we have chosen.

Furthermore, although we intend to monitor the assets of our subsidiaries regularly, there can be no assurance that our subsidiaries will be able to maintain their exclusion from registration. Any of the foregoing could require us to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common stock, the sustainability of our business model and our ability to make distributions.

Registration under the Investment Company Act would require us to comply with a variety of substantive requirements that impose, among other things:

- limitations on capital structure;
- restrictions on specified investments;
- restrictions on leverage or senior securities;
- restrictions on unsecured borrowings;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

If we were required to register as an investment company but failed to do so, we could be prohibited from engaging in our business, and criminal and civil actions could be brought against us.

Registration with the SEC as an investment company would be costly, would subject us to a host of complex regulations and would divert attention from the conduct of our business, which could materially and adversely affect us. In addition, if we purchase or sell any real estate assets to avoid becoming an investment company under the Investment Company Act, our net asset value, the amount of funds available for investment and our ability to pay distributions to our stockholders could be materially adversely affected.

The ownership limit in our charter may discourage a takeover or business combination that may have benefited our stockholders.

To assist us in qualifying as a REIT, among other purposes, our charter generally limits the beneficial or constructive ownership of our (a) common stock by any person to no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock or (b) capital stock by any person to no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our capital stock. We have waived these ownership limits, to a certain extent, for Flexpoint REIT Investor, the Wellington Investors and certain

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other investors as described under “Description of Our Capital Stock—Restricting Transfer Ownership.” This and other restrictions on ownership and transfer of our shares of stock contained in our charter may discourage a change of control of us and may deter individuals or entities from making tender offers for our common stock on terms that might be financially attractive to you or which may cause a change in our management. In addition to deterring potential transactions that may be favorable to our stockholders, these provisions may also decrease your ability to sell our common stock.

Our stockholders’ ability to control our operations is limited.

Our board of directors approves our major strategies, including our strategies regarding investments, financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other strategies without a vote of our stockholders. Further, Flexpoint REIT Investor and the Wellington Investors own significant portions of our common stock, and will continue to have significant influence over us, and may have conflicts of interest with us or you now or in the future.

Certain provisions of Maryland law could inhibit a change in our control.

Certain provisions of the Maryland General Corporation Law, or the MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock, including:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then-outstanding stock) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder became an interested stockholder, and thereafter require two supermajority stockholder votes to approve any such combination; and

- “control share” provisions that provide that a holder of our “control shares” (defined as voting shares of stock which, when aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), entitle the acquiror to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of issued and outstanding “control shares,” subject to certain exceptions) generally has no voting rights with respect to the control shares except to the extent approved by our stockholders by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We elected to opt-out of these provisions of the MGCL, in the case of the business combination provisions, by resolution of our board of directors exempting any business combination between us and any other person (provided that such business combination is first approved by our board of directors, including a majority of our directors who are not affiliates or associates of such person), and in the case of the control share provisions, pursuant to a provision in our bylaws. We may not opt back in to either of these provisions without the approval of the holders of a majority of our shares of common stock.

Our authorized but unissued common and preferred stock may prevent a change in control of the company.

Our charter authorizes us to issue additional authorized but unissued common stock and preferred stock without stockholder approval. In addition, our board of directors may, without stockholder approval, (i) amend our charter to increase or decrease the aggregate number of our shares of stock or the number of shares of any class or series of stock that we have authority to issue, (ii) classify or reclassify any unissued common stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, among other things, our board may establish a class or series of common stock or preferred stock that could delay or prevent a transaction or a change in control of the company that might involve a premium price for our common stock or otherwise be in the

best interests of our stockholders.

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Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interest.

Our charter limits the liability of our present and former directors and officers to us and our stockholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our present and former directors and officers will not have any liability to us or our stockholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment and is material to the cause of action.

In addition, our charter authorizes us to indemnify our present and former directors and officers for actions taken by them in those and other capacities to the maximum extent permitted by Maryland law and our bylaws require us to indemnify our present and former directors and officers, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us as a director or officer in these and other capacities. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former directors and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our stockholders may have more limited rights against our present and former directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with other companies, which could limit your recourse in the event of actions not in your best interests.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.

Our charter provides that, subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed only for “cause” (as defined in our charter), and even then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum, for the full term of the directorship in which the vacancy occurred (other than vacancies among any directors elected by the holder or holders of any class or series of preferred stock, if such right exists). These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in our control that is in the best interests of our stockholders.

Our charter generally does not permit ownership in excess of 9.8% of our common stock or of our stock of all classes and series based on value or number of shares, and attempts to acquire our stock in excess of the stock ownership limit will be ineffective unless an exemption is granted by our board of directors. These provisions may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares of common stock.

We expect to qualify and will elect to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. In order for us to qualify as a REIT, for each taxable year beginning with the year ending December 31, 2015, no more than 50% of the value of our outstanding shares of capital stock (after taking into account options to acquire shares of stock) may be owned, directly or constructively, by five or fewer individuals during the last half of any calendar year. “Individuals” for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order to help us qualify as a REIT, among other purposes, our charter generally limits the beneficial or constructive ownership of our (a) common stock by any person to no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock or (b) capital stock by any person to no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our capital stock. Our board of directors, in its sole and absolute discretion, may grant an exemption to certain of these prohibitions, subject to certain conditions and receipt by our board of certain representations, covenants and undertakings. In connection

with our Private Placements, our board of directors waived such limit in connection with the ownership by Flexpoint REIT Investor, the Wellington Investors and certain

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other investors. Our board of directors may also from time to time increase this ownership limit for one or more persons and may increase or decrease such limit for all other persons. Any decrease in the ownership limit generally applicable to all stockholders will not be effective for any person whose percentage ownership of our stock is in excess of such decreased ownership limit until such time as such person's percentage ownership of our stock equals or falls below such decreased ownership limit, but any further acquisition of our stock in excess of such decreased ownership limit will be in violation of the decreased ownership limit. Our board of directors may not increase the decreased ownership limit (whether for one person or all stockholders) if such increase would allow five or fewer individuals (including certain entities) to beneficially own more than 49.9% in value of our outstanding capital stock. Our charter's constructive ownership rules are complex and may cause the outstanding shares of our stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding shares of any class or series of our stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding shares of our common stock or of our stock of all classes and series and thus violate the ownership limits or other restrictions on ownership and transfer of our stock. Any attempt to own or transfer our stock following the closing of this offering in excess of the ownership limit without the consent of our board of directors or in a manner that would cause us to be "closely held" under Section 856(h) of the Code (without regard to whether the stock is held during the last half of a taxable year) or would otherwise cause us to fail to qualify as a REIT will result in the stock being automatically transferred to a trustee for a charitable trust or, if the transfer to the charitable trust is not automatically effective to prevent a violation of the stock ownership limit or the restrictions on ownership and transfer of our stock, any such transfer of our shares will be void ab initio. Further, any transfer of our stock that would result in our shares being beneficially owned by fewer than 100 persons will be void ab initio.

These ownership limitations could have the effect of discouraging a takeover or other transaction in which holders of our shares of common stock might receive a premium for their shares of common stock over the then-prevailing market price or which holders might believe to be otherwise in their best interests.

Conflicts of interest could arise in the future as a result of our structure.

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have duties to our company under applicable Maryland law in connection with their oversight of the management of our company. At the same time, we, through our wholly owned subsidiary, will have fiduciary duties, as a general partner, to our operating partnership and to any partners thereof under Delaware law in connection with the management of our operating partnership. Our duties as a general partner to our operating partnership and any of its partners may come into conflict with the duties of our directors and officers. In the event of a conflict between the interests of our stockholders and the interests of the partners of our operating partnership, we will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or the partners; provided, that for so long as we own a controlling interest in our operating partnership, any such conflict that we, in our sole and absolute discretion, determine cannot be resolved in a manner not adverse to either our stockholders or the partners of our operating partnership will be resolved in favor of our stockholders. For so long as we own a controlling interest in our operating partnership, the limited partnership agreement of our operating partnership requires us to resolve such conflicts in favor of our stockholders.

Risks Related to This Offering

The market price of our common stock may fluctuate, and you could lose all or part of your investment.

The stock market in general has been, and the market price of our common stock in particular will likely be, subject to fluctuation, whether due to, or irrespective of, our operating results and financial condition. Our financial performance, government regulatory action, tax laws, interest rates and market conditions in general could have a significant impact on the future market price of our common stock. Some of the other factors that could negatively affect our share price or result in fluctuations in our share price include:

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- actual or anticipated variations in our quarterly operating results;
- increases in market interest rates that lead purchasers of our common stock to demand a higher yield;
- changes in our funds from operations or earnings estimates;
- changes in market valuations of similar companies;
- actions or announcements by our competitors;
- actual or perceived conflicts of interest, or the discontinuance of our strategic relationships, with our Manager, the Servicer or Aspen;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key personnel;
- actions by stockholders;
- speculation in the press or investment community;
- our intentions and ability to list our common stock on a national securities exchange and our subsequent ability to maintain such listing;
- failure to qualify or maintain our qualification as a REIT; and
- failure to maintain our exemption from registration under the Investment Company Act.

We cannot assure you that the past experience of our management team or our Manager's management team will be sufficient to successfully operate our company as a publicly traded company.

We completed our IPO in February and March 2015 and we have a limited history as a publicly traded company. We cannot assure you that the past experience of our management team or our Manager's management team will be sufficient to operate our company as a publicly traded company, including timely compliance with the disclosure requirements of the SEC. We are required to develop and implement control systems and procedures in order to satisfy our periodic and current reporting requirements under applicable SEC regulations and comply with the NYSE listing standards, and this transition could place a significant strain on our Manager's management systems, infrastructure and other resources, any of which could materially adversely impact our business, results of operations

and financial condition. See “—U.S. Federal Income Tax Risks—Failure to qualify as a REIT would subject us to U.S. federal, state and local income taxes, which could adversely affect the value of shares of our common stock and would substantially reduce the cash available for distributions to our stockholders.”

In addition, since 2009, the management team of our Manager, on behalf of Aspen Capital, has invested in residential assets, including the assets in our portfolio. See “Business—The Aspen Capital Companies—Manager Experience.” Aspen Capital’s overall portfolios of loans and properties may differ significantly from the mortgage loans we may acquire in terms of interest rates, principal balances, geographic distribution, types of properties, lien priority, origination and underwriting criteria, and other possibly relevant characteristics. Furthermore, Aspen Capital’s past performance is not indicative of future results and its results were not achieved by a public company nor by an entity organized as a REIT. Aspen Capital’s results are necessarily reflective of particular market conditions and current and future market conditions and economic factors beyond management’s control, which may cause future results to vary.

The preparation of our financial statements will involve the use of estimates, judgments and assumptions, and our financial statements may be materially affected if such estimates, judgments and assumptions prove to be inaccurate. Financial statements prepared in accordance with GAAP require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on the financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management’s judgment include, but are not limited to, determining

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the fair value of our assets and the timing and amount of cash flows from our assets. These estimates, judgments and assumptions are inherently uncertain and, if they prove to be wrong, we face the risk that charges to income will be required. Any such charges could significantly harm our business, financial condition, results of operations and the price of our securities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of the accounting estimates, judgments and assumptions that we believe are the most critical to an understanding of our future plan of operations.

If we fail to establish and maintain an effective system of internal controls, we may not be able to determine accurately our financial results or to prevent fraud.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We may in the future discover areas of internal control that need improvement, and we cannot be certain that we will be successful in maintaining adequate control over our financial reporting and financial processes. Furthermore, as we grow our business, our internal controls will become more complex, and we will require significantly more resources to ensure that our internal controls remain effective. If we or our independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market value of our common stock.

Additionally, the existence of any material weakness or significant deficiency would require management to devote significant time and incur significant expense to remediate any such material weakness or significant deficiency and management may not be able to remediate any such material weakness or significant deficiency in a timely manner, or at all.

We have not established a minimum distribution payment level and we cannot assure you of our ability to pay distributions in the future.

To qualify and maintain our qualification as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular quarterly distributions to holders of our common stock out of legally available funds. Our current policy is to pay quarterly distributions that, on an annual basis, will equal all or substantially all of our net taxable income. We have not, however, established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this prospectus. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, any debt covenants, qualification and maintenance of our REIT qualification, restrictions on making distributions under Maryland law and other factors as our board of directors may deem relevant from time to time. We may not be able to make distributions in the future and our board of directors may change our distribution policy in the future. We believe that a change in any one of the following factors, among others, could adversely affect our results of operations and impair our ability to pay distributions to our stockholders:

- the profitability of the assets we hold, purchase or originate;
- our ability to make profitable acquisitions and originations;
- margin calls or other expenses that reduce our cash flow;
- defaults in our asset portfolio or decreases in the value of our portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

We cannot assure you that we will achieve results that will allow us to make a specified level of cash distributions or increases in cash distributions in the future. In addition, some of our distributions may include a return of capital. We may pay distributions from offering proceeds, borrowings or the sale of assets to the extent that distributions exceed earnings or cash flow from our investment activities.

We may pay distributions from equity or debt offering proceeds, borrowings or the sale of assets to the extent that distributions exceed earnings or cash flow from our investment activities. Because our assets will consist primarily of re-performing and non-performing mortgage loans that may not receive payments on a regular basis, we may experience uneven cash flow, making it more difficult to maintain the necessary cash to pay distributions. Such distributions would reduce the amount of cash we have available for investing

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and other purposes and could be dilutive to our financial results. In addition, funding our distributions from our net proceeds may constitute a return of capital to our investors, which would have the effect of reducing each stockholder's basis in its common stock.

We will incur increased costs as a result of being a public company.

As a public company with listed equity securities, we need to comply with new laws, regulations and requirements, certain corporate governance provisions of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, related regulations of the SEC and the requirements of the NYSE, with which we were not required to comply as a private company. Complying with these statutes, regulations and requirements will occupy a significant amount of time of our board of directors and management and will significantly increase our costs and expenses. We will need to:

- institute a more comprehensive compliance function;
- design, establish, evaluate and maintain a system of internal controls over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act and the related rules and regulations of the SEC and Public Company Accounting Oversight Board, or the PCAOB;
- comply with rules promulgated by the NYSE;
- prepare and distribute periodic public reports in compliance with our obligations under the U.S. federal securities laws;
- involve and retain to a greater degree outside counsel and accountants in the above activities; and
- establish a more robust investor relations function.

In addition, being a public company subject to these rules and regulations requires us to incur substantial costs to increase coverage under our director and officer liability insurance. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to other public companies.

We are subject to reporting and other obligations under the Exchange Act. The Jumpstart Our Business Startups Act, or JOBS Act contains provisions that, among other things, relax certain reporting requirements for "emerging growth companies," including certain requirements relating to accounting standards and compensation disclosure. We expect to be an "emerging growth company" as defined in the JOBS Act. For as long as we are an emerging growth company, which may be up to five full fiscal years, unlike other public companies, we will not be required to (i) provide an auditor's attestation report on management's assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act, (ii) comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies under Section 102(b)(1) of the JOBS Act, (iii) comply with any new requirements adopted by the PCAOB, requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer, (iv) comply with any new audit rules adopted by the PCAOB after April 5, 2012 unless the SEC determines otherwise, (v) provide certain disclosure regarding executive compensation required of larger public companies or (vi) hold stockholders advisory votes on

executive compensation. We have elected to use an extended transition period for complying with new or revised accounting standards. We cannot predict whether investors will consequently find shares of our common stock less attractive, which may adversely affect the market price of our common stock.

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Future sales of our common stock or other securities convertible into our common stock could cause the market value of our common stock to decline and could result in dilution of your shares.

Sales of substantial amounts of shares of our common stock could cause the market price of our common stock to decrease significantly. We cannot predict the effect, if any, of future sales of our common stock, or the availability of shares of our common stock for future sales, on the value of our common stock. Sales of substantial amounts of shares of our common stock, or the perception that such sales could occur, may adversely affect prevailing market values for our common stock. In connection with our IPO, we have entered into a lock-up agreement that prevents us, subject to certain exceptions, from offering additional shares of our common stock through August 12, 2015. Our directors and officers have also agreed, subject to certain exceptions, not to sell any shares of common stock that they owned at the time of our IPO until August 12, 2015. These lock-up provisions may be released at any time and potentially without notice. Lastly, effective 60 days after our IPO, we have an obligation to have a registration statement effective that permits certain holders of our shares of common stock prior to our IPO to sell those shares. If the restrictions under the lock-up agreements are waived and/or such registration statement becomes effective, additional shares of common stock may become available for resale, subject to applicable law, which could reduce the market price for our common stock. See “Description of Our Capital Stock—Lock-up Agreements.”

Future offerings of debt securities, which would rank senior to our common stock upon our bankruptcy liquidation, and future offerings of equity securities, which would dilute the common stock holdings of our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by offering debt securities or additional equity securities. Upon bankruptcy or liquidation, holders of our debt securities and shares of our preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of shares of our common stock. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments or both that could limit our ability to pay a dividend or other distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their shareholdings in our company.

U.S. Federal Income Tax Risks

Your investment has various U.S. federal income tax risks.

Although the provisions of the Code relevant to your investment are generally described in “Material U.S. Federal Income Tax Considerations,” we strongly urge you to consult your own tax advisor concerning the effects of U.S. federal, state and local income tax law on an investment in our shares of common stock and on your individual tax situation.

Our Manager has limited experience operating a REIT and we cannot assure you that its past experience will be sufficient to successfully manage our business as a REIT.

Our management, including our Manager, had never operated a REIT prior to July 2014 and our management has no experience in complying with the income, asset, and other limitations imposed by the REIT provisions of the Code. The REIT provisions of the Code are complex, and any failure to comply with those provisions in a timely manner could prevent us from qualifying as a REIT or force us to pay unexpected taxes and penalties. In such event, we could be materially and adversely affected.

Failure to qualify as a REIT would subject us to U.S. federal, state and local income taxes, which could adversely affect the value of shares of our common stock and would substantially reduce the cash available for distribution to our stockholders.

We believe that, commencing with our taxable year ended December 31, 2014, we were organized in conformity with the requirements for qualification as a REIT under the Code and we intend to continue to

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operate in a manner that will enable us to meet the requirements for taxation as a REIT commencing with our taxable year ended December 31, 2014. However, we cannot assure you that we will qualify and remain qualified as a REIT. Given the complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the potential tax treatment of the investments we make, and the possibility of future changes in our circumstances, no assurance can be given that our actual results of operations for any particular taxable year will satisfy the requirements for qualification and taxation as a REIT under the U.S. federal income tax laws.

If we fail to qualify as a REIT in any calendar year, and do not qualify for certain statutory relief provisions, we would be required to pay U.S. federal income tax (and any applicable state and local taxes), including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income (although such dividends received by certain non-corporate U.S. taxpayers generally would be eligible for a preferential rate of taxation). Further, if we fail to qualify as a REIT, we might need to borrow money or sell assets in order to pay any resulting tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to qualify or maintain our qualification as a REIT, we no longer would be required under U.S. federal tax laws to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was subject to relief under U.S. federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify.

Complying with REIT requirements may cause us to forego or liquidate otherwise attractive investments.

To qualify as a REIT, we must continually satisfy various tests regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our shares of beneficial interest. In order to meet these tests, we may be required to forego investments we might otherwise make. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our investment performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our total assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities, TRS securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, TRS securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by securities of one or more TRSs. Generally, if we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and becoming subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income. As a result, we may be required to liquidate from our portfolio otherwise attractive investments or contribute or sell such investments to a TRS. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

An IRS administrative pronouncement with respect to investments by REITs in mortgage loans secured by both real and personal property, if interpreted adversely to us, could cause us to pay penalty taxes or potentially to fail to qualify as a REIT.

Many if not all of our re-performing and non-performing residential mortgage loans will be acquired for substantially less than their outstanding principal amount. The applicable Treasury Regulation (referred to as the “interest apportionment regulation”) provides rules for determining what portion of the interest income from mortgage loans that are secured by both real and personal property is treated as “interest on obligations secured by mortgages on real property or on interests in real property.” Under the interest apportionment regulation, if a mortgage covers both real property and other property, a REIT is required

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to apportion its annual interest income to the real property security based on a fraction, the numerator of which is the value of the real property securing the loan, determined when the REIT commits to acquire the loan, and the denominator of which is the highest “principal amount” of the mortgage loan during the year. IRS Revenue Procedure 2014-51 contains an example regarding the application of the interest apportionment regulation to a mortgage loan acquired for less than its face amount. The example interprets the “principal amount” of the mortgage loan to be the face amount of the loan, despite the Code requiring taxpayers to treat any market discount, that is the difference between the purchase price of the mortgage loan and its face amount, for all purposes (other than certain withholding and information reporting purposes) as interest rather than principal.

The interest apportionment regulation applies only if the mortgage loan in question is secured both by real property and other property. We believe that all of the residential mortgage loans that we will acquire are secured only by real property and no other property value is taken into account in our underwriting and pricing. Accordingly, we believe that the interest apportionment regulation will not apply to residential mortgage loans that we acquire for less than their face amount.

Nevertheless, if the IRS were to assert successfully that our residential mortgage loans are secured by property other than real estate, then, depending upon the value of the real property securing our residential mortgage loans and their face amount and the sources of our gross income generally, we might not be able to satisfy the 75% gross income test applicable to REITs. See “Material U.S. Federal Income Tax Considerations—Gross Income Tests.” If we did not meet this test, we could potentially either lose our REIT status or be required to pay a tax penalty to the IRS.

Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders.

To qualify as a REIT, we must distribute to our stockholders each calendar year at least 90% of our REIT taxable income (including certain items of non-cash income), determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

- 85% of our REIT ordinary income for that year;
- 95% of our REIT capital gain net income for that year; and
- any undistributed taxable income from prior years.

We intend to distribute our taxable income to our stockholders in a manner intended to satisfy the 90% distribution requirement and to avoid both corporate income tax and the 4% nondeductible excise tax. However, there is no requirement that a TRS, such as Thetis TRS, distribute its after-tax net income to its parent REIT or the REIT’s stockholders.

Our taxable income may substantially exceed our net income as determined based on GAAP, because, for example, realized capital losses will be deducted in determining our GAAP net income, but may not be deductible in computing our taxable income. Also, our acquisition of re-performing and non-performing mortgage loans for less than their stated principal amount may cause us to recognize “phantom income” (or non-cash income) for U.S. federal income tax purposes. For example, if we significantly modify those loans, we would recognize gain on the resulting deemed exchange equal to the difference between the adjusted issue price of the modified loan (which will generally be the principal amount of the modified loan) and our adjusted tax basis in the original loan. Because we intend to acquire re-performing and non-performing mortgage loans at a significant discount, our adjusted tax basis in those mortgage loans typically will be significantly lower than the adjusted issue price of the modified loan. Accordingly, if we significantly modify those loans, we may recognize taxable income without receiving any cash. We may engage in foreclosures or other transactions that result in the conversion of mortgage loans to real property. Such transactions

could also give rise to taxable income without a corresponding receipt of cash. In addition, we may transfer our re-performing and non-performing mortgage loans to a TRS prior to marketing and selling those loans. Those contributions will generally be tax-deferred, but we will be required to recognize

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any accrued but unrecognized “market discount” on those loans contributed to a TRS. The “phantom income” from any significant modification of mortgage loans, foreclosures or other transactions that result in the conversion of those loans to real property or the contribution of those loans to a TRS will increase the amount of taxable income we are required to distribute to satisfy the REIT distribution requirement. In addition, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year. To the extent that we generate such non-cash taxable income in a taxable year, we may incur corporate income tax and the 4% nondeductible excise tax on that income if we do not distribute such income to stockholders in that year. In that event, we may be required to use cash reserves, incur debt, sell assets, make taxable distributions of our shares or debt securities or liquidate non-cash assets at rates or at times that we regard as unfavorable to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, Thetis TRS and any other TRS that we may form will be subject to regular corporate U.S. federal, state and local taxes. Any of these taxes would decrease cash available for distributions to stockholders.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Code substantially limit our ability to hedge. Our aggregate gross income from non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. Any hedging income earned by a TRS would be subject to U.S. federal, state and local income tax at regular corporate rates. This could increase the cost of our hedging activities or expose us to greater risks associated with interest rate changes or other changes than we would otherwise want to bear.

Failure to comply with the tax regulations with respect to Thetis TRS and any other TRS that we form would jeopardize our REIT status and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation (other than a REIT) of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT’s total assets may consist of stock or securities of one or more TRSs. A domestic TRS will pay U.S. federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arms’-length basis. Thetis TRS and any other domestic TRS that we may form will pay U.S. federal, state and local income tax on its taxable income, and its after-tax net income will be available for distribution to us but is not required to be distributed to us unless necessary to qualify or maintain our qualification as a REIT. It is also possible that Thetis TRS could have difficulty paying its taxes with respect to its 19.8% interest in our Manager because of the potential lack of liquidity at our Manager attributable to the fact that 50% of the base management fee payable by us to our Manager is paid in shares of our common stock.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to “qualified dividend income” payable to U.S. taxpayers taxed at individual rates is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. The more favorable rates applicable to regular corporate qualified

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dividends could cause investors who are taxed at individual rates to perceive investments in the stocks of REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends treated as qualified dividend income, which could adversely affect the value of the stock of REITs, including our shares of common stock.

The TMP rules may increase the taxes that we or certain of our stockholders may incur, and may limit the manner in which we effect future securitizations.

Certain of our securitizations may be considered to result in the creation of TMPs for U.S. federal income tax purposes. A TMP is generally classified as a corporation for U.S. federal income tax purposes. However, as long as a REIT owns 100% of the equity of a TMP, such classification generally does not result in the imposition of corporate income tax, because the TMP is treated as a “qualified REIT subsidiary,” which is disregarded for U.S. federal income tax purposes. In the case of such wholly REIT-owned TMPs, certain categories of our stockholders, such as foreign stockholders otherwise eligible for treaty benefits, stockholders with net operating losses, and tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income received from us that is attributable to any “excess inclusion income” produced by the TMP. In addition, to the extent that our shares are owned in record name by tax-exempt “disqualified organizations,” such as certain government-related entities that are not subject to tax on unrelated business income, we may incur a corporate level tax on our allocable portion of excess inclusion income from such a wholly REIT-owned TMP. In that case and to the extent feasible, we may reduce the amount of our distributions to any disqualified organization whose share ownership gave rise to the tax, or we may bear such tax as a general corporate expense. To the extent that our shares owned by disqualified organizations are held in record name by a broker/dealer or other nominee, the broker/dealer or other nominee would be liable for the corporate level tax on the portion of our excess inclusion income allocable to the shares held by the broker/dealer or other nominee on behalf of disqualified organizations. While we intend to attempt to minimize the portion of our distributions that is subject to these rules, the law is unclear concerning computation of excess inclusion income, and its amount could be significant.

In the case of any TMP that would be taxable as a domestic corporation if it were not wholly REIT-owned, we would be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for U.S. federal income tax purposes. This marketing limitation may prevent us from selling more junior or non-investment grade debt securities in such securitizations and maximizing our proceeds realized in those offerings.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our shares of common stock.

At any time, the U.S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

Our recognition of “phantom” income may reduce a stockholder’s after-tax return on an investment in our shares of common stock.

We may recognize taxable income in excess of our economic income, known as phantom income, in the first years that we hold certain investments, and experience an offsetting excess of economic income over our taxable income in later years. As a result, stockholders at times may be required to pay U.S. federal income tax on distributions that economically represent a return of capital rather than a dividend. These distributions would be offset in later years by distributions representing economic income that would be

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treated as returns of capital for U.S. federal income tax purposes. Taking into account the time value of money, this acceleration of U.S. federal income tax liabilities may reduce a stockholder's after-tax return on its investment to an amount less than the after-tax return on an investment with an identical before-tax rate of return that did not generate phantom income.

Liquidation of our assets may jeopardize our REIT qualification.

To qualify and maintain our qualification as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our assets to repay obligations to our lenders or for other reasons, we may be unable to comply with these requirements, thereby jeopardizing our ability to qualify or maintain our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as inventory or property held primarily for sale to customers in the ordinary course of business.

Our qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may be dependent on the accuracy of legal opinions or advice rendered or given or statements by the issuers of assets that we acquire, and the inaccuracy of any such opinions, advice or statements may adversely affect our ability to qualify or maintain our qualification as a REIT and result in significant corporate-level tax.

When purchasing securities, we may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, the value of such securities, and also to what extent those securities constitute qualified real estate assets for purposes of the REIT asset tests and produce income that qualifies under the 75% gross income test. The inaccuracy of any such opinions, advice or statements may adversely affect our ability to qualify or maintain our qualification as a REIT and result in significant corporate-level tax.

The IRS may deem the gains from sales of our properties to be subject to a 100% prohibited transaction tax.

We intend either to sell or rent the real property that we may acquire upon conversion of non-performing mortgage loans. The IRS may deem one or more sales of our properties to be "prohibited transactions." If the IRS takes the position that we have engaged in a "prohibited transaction" (i.e., if we sell a property held by us primarily for sale in the ordinary course of our trade or business), the gain we recognize from such sale would be subject to a 100% tax. The Code sets forth a safe harbor for REITs that wish to sell property without risking the imposition of the 100% tax; however, there is no assurance that we will be able to qualify for the safe harbor. To the extent we intend to dispose of an asset that may be treated as held "primarily for sale to customers in the ordinary course of a trade or business" we may contribute or sell the asset to a TRS prior to the disposition. While we do not intend to hold property for sale in the ordinary course of business, there is no assurance that our position will not be challenged by the IRS especially if we make frequent sales or sales of property in which we have short holding periods. Further, depending on the level of REO sale activities, we may determine to conduct any such activities through a TRS.

The failure of assets subject to a repurchase agreement to qualify as real estate assets would adversely affect our ability to qualify as a REIT.

We may enter into repurchase agreements under which we will nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that, for U.S. federal income tax purposes, these transactions will be treated as secured debt and we will be treated as the owner of the assets that are the subject of any such repurchase agreement notwithstanding that such an agreement may transfer record ownership of such assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could successfully assert that we do not own the assets during the term of the repurchase agreement, in which case we could fail to qualify as a REIT.

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In the future, we could be required to sell assets, borrow funds or raise equity capital to fund our distributions or to make a portion of our distributions in the form of a taxable stock distribution.

Our board of directors has the sole discretion to determine the timing, form and amount of any distributions to our stockholders, and the amount of such distributions may be limited. In the future, we could be required to sell assets, borrow funds or raise equity capital to fund our distributions or to make a portion of our distributions in the form of a taxable stock distribution. To the extent that we are required to sell assets in adverse market conditions or borrow funds at unfavorable rates, we could be materially and adversely affected. To the extent we may have to raise equity capital, we may be unable to do so at attractive prices, on a timely basis or at all, which could adversely affect our ability to make distributions to our stockholders. Our board of directors will make determinations regarding distributions based upon various factors, including our historical and projected financial condition, liquidity and results of operations, financing covenants, our intention to qualify and maintain our qualification as a REIT, applicable law and other factors, as our board of directors may deem relevant from time to time.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under “Summary,” “Risk Factors,” “Distribution Policy,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and elsewhere in this prospectus constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “should,” “will” and “would” or the negatives of these terms or other comparable terminology. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our common stock, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in this prospectus, including those set forth under the sections captioned “Risk Factors,” “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”;
- our ability to implement our business strategy;
- difficulties in identifying re-performing and non-performing loans and properties to acquire;
- the impact of changes to the supply of, value of and the returns on re-performing and non-performing loans;
- our ability to convert non-performing loans into performing loans, or to modify or otherwise resolve such loans;
- our ability to convert non-performing loans to properties that can generate attractive returns either through sale or rental;
- our ability to compete with our competitors;
- our ability to control our costs;
- the impact of changes in interest rates and the market value of the collateral underlying our re-performing and non-performing loan portfolios or of our other real estate assets;
- our ability to obtain financing arrangements on favorable terms, or at all;
- our ability to retain our engagement of our Manager;

- the failure of the Servicer to perform its obligations under the servicing agreement;
- general volatility of the capital markets;
- the impact of adverse real estate, mortgage or housing markets and changes in the general economy;
- changes in our business strategy;
- our failure to qualify or maintain qualification as a REIT;
- our expectations regarding the time during which we will be an emerging growth company under the JOBS Act;
- our failure to maintain our exemption from registration under the Investment Company Act; and
- the impact of adverse legislative or regulatory tax changes.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of our common stock by the selling stockholders.

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PRICE RANGE OF COMMON STOCK

Our common stock has been traded on the NYSE under the symbol “AJX” since February 13, 2015. The following table sets forth for the period indicated the high and low sale price of our common stock, as reported by the NYSE.

2015	High	Low
First Quarter (starting February 13, 2015)	\$ 14.99	\$ 13.98
Second Quarter (through April 9, 2015)	\$ 14.98	\$ 14.29

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We expect to qualify and will elect to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. U.S. federal income tax law requires that a REIT distribute each year an amount equal to at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. For more information, see “Material U.S. Federal Income Tax Considerations—Distribution Requirements.”

To satisfy the distribution requirement necessary to qualify as a REIT and to avoid paying U.S. federal tax on our income, we intend to make regular quarterly distributions of substantially all of our REIT taxable income to holders of our common stock. Any distributions we make will be at the discretion of our board of directors and will depend upon our earnings and financial condition, qualification and maintenance of REIT status, applicable provisions of the MGCL and such other factors as our board of directors deems relevant. For more information regarding risk factors that could materially adversely affect our earnings and financial condition, see “Risk Factors.”

To the extent that cash available for distribution is less than our REIT taxable income, we could be required to sell assets, borrow funds or raise equity capital to make cash distributions or make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. We generally will not be required to make distributions with respect to activities conducted through Thetis TRS or any other TRS that we may form.

We anticipate that our distributions generally will be taxable as ordinary income to our stockholders, although a portion of the distributions may be designated by us as capital gain or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital or capital gains.

The following chart shows dividends declared by our board of directors:

Date Dividend Declared	Dividend Amount	Record Date	Dividend Payment Date
November 12, 2014	\$ 0.08	November 21, 2014	December 4, 2014
January 16, 2015	\$ 0.16	January 13, 2015	January 30, 2015

For a more complete discussion of the tax treatment of distributions to holders of shares of our common stock, see “Material U.S. Federal Income Tax Considerations.”

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STRUCTURE AND FORMATION TRANSACTIONS

We were incorporated in Maryland on January 30, 2014. We conduct substantially all of our business through our operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership formed on February 11, 2014, and its subsidiaries. Our wholly owned subsidiary Great Ajax Operating LLC, a Delaware limited liability company, is the sole general partner of our operating partnership. We also own a 19.8% equity interest in our Manager, through Thetis TRS, a TRS that is wholly owned by our operating partnership.

On July 8, 2014, we closed the Original Private Placement under Rule 144A and Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), pursuant to which we sold 8,213,116 shares of our common stock and 453,551 OP Units. On August 1, 2014, we closed the sale of an additional 263,570 shares of our common stock and 14,555 OP Units pursuant to the exercise of the additional allotment option we granted to the initial purchaser and placement agent in the Original Private Placement. The purchase price per share was \$15.00. The net proceeds from the Original Private Placement, after deducting the initial purchaser’s discount and placement fee and offering expenses paid by us, were approximately \$128.4 million. In the Original Private Placement, the Flexpoint REIT Investor and the Wellington Management Institutional Investor each purchased (i) 1,645,363 shares of our common stock (in the case of the Wellington Management Institutional Investor, inclusive of shares issuable upon redemption of 468,106 OP units); (ii) 9.8% of the equity of GA-FS, the parent of the Servicer (including interest-bearing promissory notes from GA-FS in the aggregate principal amount of \$1.05 million that automatically converted into 4.9% equity interest in GA-FS on September 15, 2014); (iii) two non-transferable ten-year warrants, which each permit the holder to acquire an additional 9.9% equity interest in GA-FS at a premium to the original purchase price, exercisable subject to certain regulatory requirements or in the event of a contemporaneous sale of the equity interests of GA-FS; and (iv) 26.73% of the equity interests of our Manager. The Flexpoint REIT Investor and the Wellington Management Institutional Investor also have certain additional rights in our Manager, including approval rights with respect to certain actions by our Manager. In addition, so long as Flexpoint REIT Investor and/or its affiliates own at least 9.8% of the outstanding shares of our common stock, Flexpoint REIT Investor will have the right to nominate a representative for election as a member of our board of directors.

On December 16, 2014, we closed the Second Private Placement pursuant to which we sold 2,725,326 shares of common stock and 156,000 OP Units to qualified institutional buyers and accredited investors. The purchase price per share was \$15.00. The net proceeds from the Second Private Placement after deducting the placement fee and offering expenses paid by us, was approximately \$41.2 million. The Flexpoint REIT Investor, purchased 192,137 shares of common stock and the Wellington Management Institutional Investor purchased 650,000 shares of common stock (inclusive of shares issuable upon redemption of 156,000 OP Units) in the Second Private Placement. See “Principal Stockholders,” “Certain Relationships and Related Party Transactions—Agreements with Anchor Investors” and “Description of Capital Stock” for additional information about the investments by Flexpoint REIT Investor and the Wellington Management Institutional Investor. As of April 10, 2015, Flexpoint REIT Investor and the Wellington Investors or affiliates thereof owned 12.1% and 18.7%, respectively, of our common stock (assuming redemption of OP Units on a 1-for-1 basis into shares of our common stock).

Certain of our existing stockholders, including certain affiliates, purchased an aggregate of 730,000 shares of our common stock in the IPO at the initial public offering price.

On July 8, 2014, we entered into the management agreement, the servicing agreement and a Trademark License Agreement with Aspen pursuant to which we have a non-transferable right to use the “Great Ajax” and “Thetis” trademarks on a royalty-free basis. See “Our Manager and the Management Agreement” and “Certain Relationships and Related Party Transactions” for additional information about these agreements.

In the Original Private Placement, our Manager purchased 66,666 shares of our common stock for an aggregate purchase price of \$1 million and the Servicer purchased 266,667 shares of our common stock for an aggregate purchase price of \$4 million. Lawrence Mendelsohn, our Chairman and Chief Executive Officer, controls 50% of the manager of Aspen and has certain economic and/or management rights with respect to 7.8% of the interests in Aspen, which is the direct parent of GA-FS and a 26.7% owner of our Manager. Mr. Schaub owns 2.5% of the interests in Aspen. See also “Certain Relationships and Related Party Transactions—Ownership of our Manager, Great Ajax FS LLC and Aspen Yo LLC.”

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In July 2014, we used approximately \$48.8 million of the net proceeds, from the Original Private Placement to acquire our initial portfolio of mortgage-related assets by acquiring 82% of the limited liability company interests of Little Ajax II from the Flexpoint REIT Investor, the Wellington Investors and their respective affiliates. Little Ajax II owned a portfolio of mortgage-related assets consisting of 418 mortgage loans and two single-family rental properties, which it acquired in a series of transactions from unaffiliated parties between December 1, 2013 and July 7, 2014. In September, we completed the transaction to acquire the remaining interests in this initial mortgage-related asset portfolio. The transaction initially had Little Ajax II redeem the 82% membership interest held by our operating partnership by distributing to the operating partnership 82% of all Little Ajax II loans, participation interests and real property. Our operating partnership then purchased for cash the remaining 18% interest in such real estate assets for an aggregate purchase price of approximately \$11.4 million. Our operating partnership also purchased for cash from Gregory its 5% interest in the 43 loans in which Little Ajax II held a 95% participation interest for approximately \$0.2 million. See “Certain Relationships and Related Party Transactions—Agreements with Anchor Investors” for additional information.

The following chart illustrates our organizational structure and principal subsidiaries immediately following our IPO. Percentage ownership of our common stock is based on 15,604,591 shares and OP Units outstanding as of the completion of the IPO.

Percentages are rounded, and, therefore, may add up to more than 100%.

(1)

The REIT Institutional Investors consist of Flexpoint REIT Investor and the Wellington Management Institutional Investor. Excludes shares of our common stock purchased by Flexpoint REIT Investor and one or more other investment advisory clients of Wellington Management Company LLP (together with the Wellington Management

Institutional Investor, the “Wellington Investors”) or their affiliates in the IPO. Part of this interest is held in the form of OP Units.

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(2)
Includes shares of our common stock that Flexpoint REIT Investor, the Wellington Investors or their respective affiliates have purchased in the IPO.

(3)
Aspen is managed by MARS Development LLC, which is owned 50% by Lawrence Mendelsohn, our chairman and chief executive officer, and 50% by the president of Gregory.

(4)
The Wellington Management Institutional Investor and Flexpoint REIT Investor each also has warrants to purchase an additional 19.8% interest in Great Ajax FS LLC.

(5)
As of the date of this prospectus, there are two securitization trusts through which our operating partnership has issued the Class A Notes, the Class B Notes and the Trust Certificates. The Class B Notes are held by our operating partnership and the Trust Certificates issued by the securitization trusts and the beneficial ownership of the trusts are retained by Great Ajax Funding LLC. For additional information on our securitizations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

See also “Certain Relationships and Related Party Transactions.”

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SELECTED FINANCIAL INFORMATION

The following tables set forth selected historical financial information derived from our audited balance sheets as of March 31, 2014 and December 31, 2014 and our audited statement of income from January 30, 2014, the date of our inception, though December 31, 2014. The following data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our financial statements, including the notes thereto, included elsewhere in this prospectus. We commenced operations on July 8, 2014, and, therefore, the selected financial information presented below are not indicative of our future financial condition or results of operations.

Statement of Income (Dollars in thousands except per share data)	From Inception through December 31, 2014
INCOME	
Loan interest income	\$ 6,940
Interest expense	(771)
Net interest income	6,169
Other income	75
Total income	6,244
EXPENSE	
Related party expense – management fee	956
Related party expense – loan servicing fees	485
Other fees and expenses	1,053
Total expense	2,494
Income before provision for income tax	3,750
Provision for income tax	—
Consolidated net income	3,750
Less: consolidated net income attributable to the non-controlling interest	326
Consolidated net income attributable to the common stockholders	\$ 3,424
Basic earnings per common share	\$ 0.41
Diluted earnings per common share	\$ 0.40

Balance Sheet (Dollars in thousands)	March 31, 2014	December 31, 2014
Total assets	\$ 1,500	\$ 272,758
Total liabilities	—	\$ 101,478
Noncontrolling interest	—	\$ 9,473
Total equity	\$ 1,500	\$ 171,280

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MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and the other forward-looking statements throughout this prospectus reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. See “Risk Factors” and “Cautionary Statement Regarding Forward-Looking Statements” for a discussion of the uncertainties, risks and assumptions associated with these statements.

Overview

Great Ajax Corp. is a Maryland corporation that focuses primarily on acquiring, investing in and managing a portfolio of re-performing and non-performing mortgage loans secured by single-family residences and, to a lesser extent, single-family properties. We also invest in loans secured by multi-family residential and commercial mixed use retail/residential properties, as well as in the properties directly. The multi-family and commercial mixed-use properties generally will have loan values of up to approximately \$5 million. We refer to these as “smaller commercial properties.” In July and August 2014, we closed the Original Private Placement, which resulted in net proceeds to us of approximately \$128.4 million. We commenced operations on July 8, 2014. In December 2014, we closed the Second Private Placement of shares of our common stock and OP Units, which resulted in net proceeds to us of approximately \$41.2 million. Through December 31, 2014, we have acquired mortgage loans and other mortgage-related assets with an aggregate UPB of \$308.2 million.

The Company completed its IPO in February and March 2015 and sold an aggregate of 3,976,464 shares of common stock, including shares sold pursuant to exercise of the option to purchase additional shares granted to the underwriters. We are using the approximately \$53.9 million of proceeds (after deducting the underwriting discount but before deducting estimated offering expenses) to acquire additional mortgage loans and mortgage-related assets.

We are externally managed by Thetis Asset Management LLC, an affiliate. We own a 19.8% interest in the Manager. Our mortgage loans and other real estate assets are serviced by Gregory Funding LLC, a subsidiary of Aspen. We conduct substantially all of our business through our operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership, and its subsidiaries. We, through a wholly owned subsidiary, are the general partner of our operating partnership. Thetis TRS is a wholly owned subsidiary of the operating partnership that owns the equity interest in the Manager. We elected to treat Thetis TRS as a TRS under the Code. In January 2015, we applied for a private letter ruling from the Internal Revenue Service that would permit us to hold our interest in the Manager through the operating partnership. In September 2014, we formed Great Ajax Funding LLC, a wholly owned subsidiary of the operating partnership, to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts we may form for additional securitizations. In November 2014, we formed AJX Mortgage Trust I, a wholly owned subsidiary of the operating partnership, in connection with a repurchase agreement.

We expect to qualify and will elect to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. Our qualification as a REIT will depend upon our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code, and that our current intended manner of operation will enable us to meet the requirements for taxation as a REIT for U.S. federal income tax purposes.

Market Trends and Outlook

The U.S. Federal Reserve estimates that as of December 31, 2014, there was approximately \$9.9 trillion of mortgage loans outstanding on U.S. one-to-four family residential properties and approximately \$994.1 billion of mortgage loans outstanding on U.S. multi-family residential properties.

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While housing starts increased in 2014 over 2013, the number of building permits issued in the fourth quarter of 2014 indicates that starts may be leveling off for single-family homes (an increase of 3% compared to the third quarter). Although construction starts on single-family homes were up 8% from the previous quarter and up 6% from the fourth quarter of 2013, they remain significantly below historical levels. In addition to the leveling of housing starts, a persistent price gap exists between newly built homes and existing homes with sales of existing homes showing improvements while sales of new homes continued to lag in the fourth quarter of 2014. Furthermore, HUD has noted that the listed inventories of new and of existing homes at the end of the fourth quarter 2014 would support 5.4 months and 4.4 months, respectively, of sales at the current sales pace, while historical average supply of homes on the market is 6.0 months. In addition to fewer housing starts, a persistent price gap exists between newly built homes and existing homes. While new homes are almost always more expensive, on average, than their older comparables, that gap has widened since the last recession. The MBA estimates that total one-to-four family mortgage loan originations (including both purchase and refinance transactions) will increase from \$1.1 trillion in 2014 to \$1.2 trillion in 2015.

Cyclical trends are prompting a significant realignment within the mortgage sector. These trends and their effects include:

- continuing sales of residential mortgage assets by banks and other mortgage lenders due to elevated operating costs resulting from new regulatory requirements, delinquencies and impairments;
- the continuing decline in home ownership that, conversely, has increased the demand for single-family and multi-family residential rental properties and associated rents;
- the dislocations in the residential mortgage loan origination market and the limited availability of financing for non-GSE mortgages since 2008, which have made qualifying for a mortgage loan more difficult. These factors, combined with shifting demographic trends and the need for families pushed out of their homes through foreclosure or the inability to continue to pay their mortgage loans, are driving increased demand for loan modifications, non-GSE mortgage financing and single-family rental properties;
- the changing regulatory landscape, leading to the reduction of the government's role in, and the return of private capital, including non-bank participants, to the housing finance market; some of the changes have begun to be implemented, as evidenced by the tightening of conforming loan limits and increases in guarantee fees; and
- unemployment remaining relatively high, under-employment continuing to be a concern and real wages continuing to be stagnant, which means that the ability of borrowers to continue to pay their existing mortgage loans will likely remain under pressure.

The current market landscape is also generating new opportunities in residential mortgage-related whole loan strategies. The origination of subprime and alternative residential mortgage loans has dramatically declined since 2008 and the new QM and ATR Rule requirements will also put pressure on new originations. Additionally, many banks and other mortgage lenders have increased their credit standards and down payment requirements for originating new loans.

The combination of these factors has also resulted in a significant number of families that cannot qualify to obtain new residential mortgage loans. We believe new U.S. federal regulations addressing "qualified mortgages" based, among other factors on employment status, debt-to-income level, impaired credit history or lack of savings, will continue to limit mortgage loan availability from traditional mortgage lenders. In addition, we believe that many homeowners displaced by foreclosure or who either cannot afford to own or cannot be approved for a mortgage will prefer to live in

single-family rental properties with similar characteristics and amenities to owned homes as well as smaller multi-family residential properties. In certain demographic areas, new households are being formed at a rate that exceeds the new homes being added to the market, which we believe favors future demand for non-federally guaranteed mortgage financing for single-family and smaller multi-family rental properties. For all these reasons, we believe that demand for single-family and smaller multi-family rental properties will increase in the near term and remain at heightened levels in the foreseeable future.

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We expect the availability of pools of re-performing and non-performing loans, properties in foreclosure and REO to increase and remain elevated over the next several years. The single family mortgage delinquency rate at December 31, 2014 is 6.71%, according to the Federal Reserve Board. Overall housing values have rebounded since 2012; however, CoreLogic®, a leading global property information, analytics and data-enabled services provider, has reported that approximately 5.4 million homes, or 10.8% of all residential properties with a mortgage, were in a negative position as of the end of the fourth quarter 2014. Negative equity, often referred to as “underwater” or “upside down,” means that borrowers owe more on their mortgages than their homes are worth. Negative equity can occur because of a decline in value, an increase in mortgage debt or a combination of both. For the homes in negative equity status, the national aggregate value of negative equity was \$349 billion at the end of the fourth quarter of 2014, up \$7 billion from approximately \$342 billion at the end of the third quarter 2014. In addition, Corelogic® reports that of the 49.9 million residential properties with equity, approximately 10 million have less than 20% equity. Borrowers with less than 20% equity, referred to as “under-equited,” may have a more difficult time refinancing their existing home or obtaining new financing to sell and buy another home due to underwriting constraints. Under-equited mortgages accounted for 20% of all residential properties with a mortgage nationwide in the fourth quarter of 2014, with more than 1.4 million residential properties at less than 5% equity, referred to as near-negative equity. Properties that are near-negative equity are considered at risk if home prices fall. Further, a portion of the 800,000 borrowers with low interest rates under the HAMP for the past five years will begin seeing mortgage payment increases in 2014.

Generally, their interest rates will increase by one percentage point each year until their rate equals the average 30-year, fixed-rate mortgage rate at the time of modification. 11% of HAMP borrowers have already missed at least one payment, and we believe that wages and home prices have not improved enough for many of these borrowers to afford the monthly payment increase. In June, September and November 2014, the FHA held note sales under the Distressed Asset Stabilization Program of 2014, or DASP, as part of a broad effort by the FHA to decrease losses and market and sell non-performing loans in bulk. Further such sales are expected. In addition, in July 2014 and February 2015, Freddie Mac sold \$659 million and \$392 million, respectively, of non-performing loans. Both Fannie Mae and Freddie Mac have indicated that they will have ongoing non-performing loan sales programs going forward. We also believe that banks and other mortgage lenders have strengthened their capital bases and are more aggressively foreclosing on delinquent borrowers or selling these loans to dispose of their inventory. Additionally, many non-performing loan buyers are now interested in reducing their investment duration and have begun selling re-performing loans.

We also believe there are significant attractive investment opportunities in the smaller commercial mortgage loan and property markets. We focus on densely populated urban areas where we expect positive economic change based on certain demographic, economic and social statistical data. The primary lenders for smaller multi-family and mixed retail/residential properties are community banks and not regional and national banks and large institutional lenders. We believe the primary lenders and loan purchasers are less interested in these assets because they typically require significant commercial and residential mortgage credit and underwriting expertise, special servicing capability and active property management. It is also more difficult to create the large pools that these primary banks, lenders and portfolio acquirers typically desire. Many community banks also remain under financial and regulatory pressure since the financial crisis and are now beginning to sell smaller commercial mortgage loans as property values have begun to increase.

Factors That May Affect Our Operating Results

Acquisitions. Our operating results depend heavily on sourcing re-performing and non-performing loans. We believe that there is currently a large supply of re-performing and non-performing loans available to us for acquisition. We believe the available supply provides for a steady acquisition pipeline of assets since we plan on targeting just a small percentage of the population. We further believe that we will be able to purchase residential mortgage loans at lower prices than REO properties for the following reasons.

- We believe that buying re-performing loans is more efficient and lower risk than acquiring REO rentals directly because the net cash flow from the re-performing loans is typically greater than rent cash flow. Re-performing loans are typically purchased at significant discounts from UPB and underlying property values, but the borrower pays interest on the full UPB, leading to a higher

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current yield. The borrower is also responsible for property taxes, insurance and maintenance, which are all costs that the owner of the REO would otherwise have to pay. In addition, to the extent that the UPB exceeds the home's value, the lender will receive all appreciation until such time as the HPA exceeds the UPB. While the return to the mortgage loan owner is thus capped, conversely, there is also risk mitigation if the REO value decreases, until the value is less than the price the lender paid for the loan.

- If a re-performing loan becomes a non-performing loan, or we purchase a non-performing loan, which is purchased at a deeper discount than re-performing loans, we, through the Servicer, have a number of ways to mitigate our loss. These loss mitigation techniques include working with the borrower to achieve performance, including through modification of the mortgage loan terms as well as short sale, assisted deed-in-lieu of foreclosure, assisted deed-for-lease, foreclosure and other loss mitigation activities. With each REO acquired, we assess the best potential return — either through rental, sale with carryback financing, which we believe will increase the potential pool of purchasers, or sale without our financing the purchase.

- We believe that we will be able to purchase residential mortgage loans at lower prices than REO properties because sellers of such loans will be able to avoid paying the costs typically associated with sales of real estate, whether single-family residences or smaller commercial properties, such as broker commissions and closing costs of up to 10% of gross proceeds of the sale. We believe this will motivate the sellers to accept a lower price for the re-performing and non-performing loans than they would if selling REO.

- We believe there are fewer participants in the re-performing and non-performing loan marketplace than in the foreclosure auction and other REO acquisition channels due to the large size of portfolios offered for sale on an “all or none” basis and the required operational infrastructure and expertise involved in servicing loans and managing single-family rental properties across various states. Additionally, as the acquirer of loans, we take the risk of delays in the foreclosure process for non-performing loans. We will focus on smaller pools of mortgage loan assets that we can analyze on a loan-by-loan basis, and we believe that we will be able to aggregate these smaller pools often at a greater discount than would be available for larger pools. We believe the relatively lower level of competition for re-performing and non-performing loans, combined with growing supply, provides buyers with the opportunity for a higher discount rate relative to the foreclosure auction and other REO acquisition channels and therefore a relatively lower cost to acquire REO.

We expect that our residential mortgage loan portfolio may grow at an uneven pace, as opportunities to acquire distressed residential mortgage loans may be irregularly timed and may involve large portfolios of loans, and the timing and extent of our success in acquiring such loans cannot be predicted. In addition, for any given portfolio of loans that we agree to acquire, we typically acquire fewer loans than originally expected, as certain loans may be resolved prior to the closing date or may fail to meet our diligence standards. The number of unacquired loans typically constitutes a small portion of a particular portfolio. In any case where we do not acquire the full portfolio, we make appropriate adjustments to the applicable purchase price.

Financing. Our ability to grow our business by acquiring re-performing and non-performing loans depends on the availability of adequate financing, including additional equity financing, debt financing or both in order to meet our objectives. We intend to leverage our investments with debt, the level of which may vary based upon the particular characteristics of our portfolio and on market conditions. We securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate MBS so created. The securitizations are structured as debt financings and not REMIC sales, and the loans included in the securitizations remain on the Company's balance sheet. In October 2014 and November 2014, we completed securitization transactions pursuant to Rule 144A under the Securities Act in which we issued notes primarily secured by seasoned, performing and non-performing mortgage loans primarily secured by first liens on one-to-four family residential properties. We may also enter into

repurchase financing facilities under which we will nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets at a price equal to the loan

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amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, repurchase transactions are generally accounted for as debt secured by the underlying assets. In November 2014, we entered into a repurchase financing facility. We describe the securitizations and the repurchase financing facility below under “— Liquidity and Capital Resources.” To the extent appropriate at the relevant time, our financing sources may also include bank credit facilities, warehouse lines of credit, structured financing arrangements and additional repurchase agreements, among others. See “— Liquidity and Capital Resources.” We may also seek to raise additional capital through public or private offerings of debt or equity securities, depending upon market conditions.

To qualify as a REIT under the Code, we generally will need to distribute at least 90% of our taxable income each year (subject to certain adjustments) to our stockholders. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

Resolution Methodologies. We, through the Servicer, or our affiliates, employ various loan resolution methodologies with respect to our residential mortgage loans, including loan modification, collateral resolution and collateral disposition. The manner in which a non-performing loan is resolved will affect the amount and timing of revenue we will receive. Our preferred resolution methodology is to modify non-performing loans. Once successfully modified and there is a period of continued performance, we expect that borrowers will typically refinance these loans with other lenders or facilitated by the Servicer at or near the estimated value of the underlying property. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for us and is a socially responsible business strategy because it keeps more families in their homes. In certain circumstances, we may also consider selling these modified loans. Though we do not actively seek to acquire REO or rental properties, through historical experience, we expect that many of our non-performing residential mortgage loans will enter into foreclosure or similar proceedings, ultimately becoming REO that we can convert into single-family rental properties that we believe will generate long-term returns for our stockholders. REO property can be converted into single-family rental properties or they may be sold through REO liquidation and short sale processes. We expect the timelines for each of the different processes to vary significantly, and final resolution could take up to 24 months or longer from the loan acquisition date. The exact nature of resolution will depend on a number of factors that are beyond our control, including borrower willingness, property value, availability of refinancing, interest rates, conditions in the financial markets, regulatory environment and other factors. To avoid the 100% prohibited transaction tax on the sale of dealer property by a REIT, we intend to dispose of any asset that may be treated as held “primarily for sale to customers in the ordinary course of a trade or business” by contributing or selling the asset to a TRS prior to marketing the asset for sale.

The state of the real estate market and home prices will determine proceeds from any sale of real estate. We will opportunistically and on an asset-by-asset basis determine whether to rent any REO we acquire, whether upon foreclosure or otherwise, we may determine to sell such assets if they do not meet our investment criteria. In addition, while we seek to track real estate price trends and estimate the effects of those trends on the valuations of our portfolios of residential mortgage loans, future real estate values are subject to influences beyond our control. Generally, rising home prices are expected to positively affect our results. Conversely, declining real estate prices are expected to negatively affect our results.

Conversion to rental property. The key variables that will affect our residential rental revenues over the long-term will be the extent to which we acquire REO, which, in turn, will depend on the amount of our capital invested, average occupancy and rental rates in our owned rental properties. We expect the timeline to convert acquired loans into rental properties will vary significantly by loan, which could result in variations in our revenue and our operating performance from period to period. There are a variety of factors that may inhibit our ability, through the Servicer, to foreclose upon a residential mortgage loan and get access to the real property within the time frames we model as part of our valuation process. These factors include, without limitation: state foreclosure timelines and the associated deferrals (including from litigation); unauthorized occupants of the property; U.S. federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures that may delay the foreclosure process; U.S. federal government programs that require specific procedures to be followed to explore the non-foreclosure outcome of a residential mortgage loan prior to

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the commencement of a foreclosure proceeding; and declines in real estate values and high levels of unemployment and underemployment that increase the number of foreclosures and place additional pressure on the already overburdened judicial and administrative systems.

Expenses. Our expenses primarily consist of the fees and expenses payable by us under the management agreement and the servicing agreement. Our Manager incurs direct, out-of-pocket costs related to managing our business, which are contractually reimbursable by us. Depreciation and amortization is a non-cash expense associated with the ownership of real estate and generally remains relatively consistent each year at an asset level since we depreciate our properties on a straight-line basis over a fixed life. Interest expense consists of the costs to borrow money.

Changes in home prices. As discussed above, generally, rising home prices are expected to positively affect our results, particularly as it should result in greater levels of re-performance of mortgage loans, faster refinancing of those mortgage loans, more re-capture of principal on greater than 100% LTV (loan-to-value) mortgage loans and increased recovery of the principal of the mortgage loans upon sale of any REO. Conversely, declining real estate prices are expected to negatively affect our results, particularly if the price should decline below our purchase price for the loans and especially if borrowers determine that it is better to strategically default as their equity in their homes decline. While home prices have risen to nearly pre-Great Recession levels in many parts of the United States, there are still significant regions where values have not materially increased. When we analyze loan and property acquisitions we do not take HPA into account except for rural properties for which we model negative HPA related to our expectation of worse than expected property condition. We typically concentrate our investments in specific urban geographic locations in which we expect stable or better property markets, although we do not use any appreciation expectation in the performance modeling.

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 mortgage loan and MBS portfolio to decline; (2) coupons on our ARM and hybrid ARM mortgage loans and MBS to reset, although on a delayed basis, to higher interest rates; (3) prepayments on our mortgage loans and MBS 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: (a) prepayments on our mortgage loan and MBS portfolio to increase, thereby accelerating the amortization of our purchase premiums and the accretion of our purchase discounts; (b) the value of our mortgage loan and MBS portfolio to increase; (c) coupons on our ARM and hybrid ARM mortgage loans and MBS to reset, although on a delayed basis, to lower interest rates; (d) the interest expense associated with our borrowings to decrease; and (e) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease.

Market conditions. Due to the dramatic repricing of real estate assets during the most recent financial crisis and the continuing uncertainty in the direction and continuing strength of the real estate markets, we believe a void in the debt and equity capital available for investing in real estate has been created as many financial institutions, insurance companies, finance companies and fund managers face insolvency or have determined to reduce or discontinue investment in debt or equity related to real estate. We believe the dislocations in the residential real estate market have resulted or will result in an “over-correction” in the repricing of real estate assets, creating a potential opportunity for us to capitalize on these market dislocations and capital void.

We believe that in spite of the continuing uncertain market environment for mortgage-related assets, current market conditions offer potentially attractive investment opportunities for us, even in the face of a riskier and more volatile market environment, as the depressed trading prices of our target assets have caused a corresponding increase in available yields. We expect that market conditions will continue to impact our operating results and will cause us to adjust our investment and financing strategies over time as new opportunities emerge and risk profiles of our business change.

Critical Accounting Policies and Estimates

Certain of our critical accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements

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and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We consider significant estimates to include expected cash flows from mortgage loans and fair value measurements. We believe that all of the decisions and assessments upon which our consolidated financial statements are and will be based were or will be reasonable at the time made based upon information available to us at that time. We have identified our most critical accounting policies to be the following:

Mortgage loans, net. Purchased mortgage loans are initially recorded at the purchase price at the time of acquisition and are considered asset acquisitions. As part of the determination of the purchase price for mortgage loans, we use a discounted cash flow valuation model to model expected cash flows, and which considers alternate loan resolution probabilities, including liquidation or conversion to real estate owned. Observable inputs to the model include current interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates and loan resolution timelines.

Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have some degree of credit quality deterioration since origination and have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The re-performing mortgage loans were determined to have common risk characteristics and have been accounted for as a single loan pool. Similarly, non-performing mortgage loans were determined to have common risk characteristics and have been accounted for as a single non-performing pool. Under ASC 310-30, the Company estimates cash flows expected to be collected, adjusted for expected prepayments and defaults expected to be incurred over the life of the loan pool. The Company determines the excess of the loan pool's contractually required principal and interest payments over the expected cash flows as an amount that should not be accreted, the non-accretable yield. The difference between expected cash flows and the purchase price (at acquisition) or the present value of the expected cash flows is referred to as the accretable yield, which represents the amount that is expected to be recorded as interest income over the remaining life of the loan pool. For the period ended December 31, 2014, the Company recognized no provision for loan loss and no adjustments to the amount of the accretable yield. For the period ended December 31, 2014, the Company accreted \$6.9 million into interest income with respect to its loan portfolio. As of December 31, 2014, these loans had a UPB of \$304.5 million and a carrying value of \$211.2 million.

Generally, we acquire loans at a discount associated with some degree of credit impairment. We elect to aggregate certain pools of loans with common risk characteristics and accrue interest income thereon at a composite interest rate, based on expectations of cash flows to be collected for the pool. Expectations of pool cash flow are reviewed quarterly. Adjustments to a pool's prospective composite interest rate or an allowance for impairment are made to the extent revised expectations differ from original estimates.

For loans that do not qualify for pool aggregation treatment, including performing loans that are not purchased at discounts resulting from credit-related issues, interest is recognized using the simple-interest method on daily balances of the principal amount outstanding, adjusted for the amortization or accretion of the loan premium or discount over the contractual life of the loan.

Accrual of interest on individual loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. Our policy is to stop accruing interest when a loan's delinquency exceeds 90 days. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged-off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic principal and interest payments returns and future payments are reasonably assured, in which case the loan is returned to accrual status.

An individual loan is considered to be impaired when, based on current events and conditions, it is probable we will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent.

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For individual loans, a troubled debt restructuring is a formal restructuring of a loan where, for economic or legal reasons related to the borrower's financial difficulties, a concession that would not otherwise be considered is granted to the borrower. The concession may be granted in various forms, including providing a below-market interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a combination of these. An individual loan that has had a troubled debt restructuring is considered to be impaired and is subject to the relevant accounting for impaired loans.

The allowance for loan losses is established through a provision for loan losses charged to expenses. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans.

Purchased non-performing loans that are accounted for as individual loans are recorded at fair value, which is generally the purchase price. Interest income is recognized on a cash basis and loan purchase discount is accreted to income in proportion to the actual principal paid. Loans are tested quarterly for impairment and impairment reserves are recorded to the extent the fair market value of the underlying collateral falls below net book value.

Residential properties. Property is recorded at cost if purchased, or at fair value of the asset less estimated selling costs if obtained through foreclosure by us. Properties acquired through foreclosure are generally held as long-term investments, but may eventually be held-for-sale. Property that is currently unoccupied and actively marketed for sale is classified as held-for-sale. Property held-for-sale is carried at the lower of cost or fair market value. Net unrealized losses are recognized through a valuation allowance by charges to income.

No depreciation or amortization expense is recognized on properties held-for-sale, while holding costs are expensed as incurred. Rental property is property not held-for-sale. Rental properties are intended to be held as long-term investments but may eventually be held-for-sale. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets of three to 27.5 years.

With respect to residential rental properties not held-for-sale, we perform an impairment analysis using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. These cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

If the carrying amount of a held-for-investment asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using broker pricing opinions, or BPOs. In some instances, appraisal information may be available and is used in addition to BPOs.

We perform property renovations to maximize the value of property for our rental strategy. Such expenditures are part of our initial investment in a property and, therefore, are capitalized as part of the basis of the property. Subsequently, the residential property, including any renovations that improve or extend the life of the asset, are accounted for at cost. The cost basis is depreciated using the straight-line method over an estimated useful life of three to 27.5 years.

Interest and other carrying costs incurred during the renovation period are capitalized until the property is ready for its intended use. Expenditures for ordinary maintenance and repairs are charged to expense as incurred.

Fair value of assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

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Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

Property held-for-sale is measured at cost at acquisition and subsequently measured at the lower of cost or fair value less cost to sell on a nonrecurring basis. The fair value of property held-for-sale is generally based on estimated market prices from an independently prepared appraisal, an independent BPO, or management's judgment as to the selling price of similar properties.

Income Taxes. We intend to elect REIT status upon the filing of our 2014 income tax return, and have conducted our operations in order to satisfy and maintain eligibility for REIT status. Accordingly, we do not believe we will be subject to U.S. federal income tax beginning in the year ended December 31, 2014 on the portion of our REIT taxable income that is distributed to our stockholders as long as certain asset, income and share ownership tests are met. If after electing to be taxed as a REIT, we subsequently fail to qualify as a REIT in any taxable year, we generally will not be permitted to qualify for treatment as a REIT for U.S. federal income tax purposes for the four taxable years following the year during which qualification is lost. We may also be subject to state or local income or franchise taxes.

Thetis TRS, and any other TRS that we form, will be subject to U.S. federal and state income taxes. On January 13, 2015 we applied for a private letter ruling from the Internal Revenue Service that would allow us to exclude our proportionate share of gross income from the Manager if we held our interest in the Manager through our operating partnership. If we receive such a ruling, we expect that we will hold our interest in the Manager through our operating partnership, instead of through Thetis TRS; however, there is no assurance that such a ruling will be issued. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to our judgment, we reduce a deferred tax asset by a valuation allowance if it is "more likely than not" that some or all of the deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and we recognize tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

We evaluate tax positions taken in our consolidated financial statements under the interpretation for accounting for uncertainty in income taxes. As a result of this evaluation, we may recognize a tax benefit from an uncertain tax position only if it is "more-likely-than-not" that the tax position will be sustained on examination by taxing authorities. Our tax returns remain subject to examination and consequently, the tax positions taken by us may be subject to change.

Emerging Growth Company. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can

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delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may, therefore, not be comparable to those of companies that comply with such new or revised accounting standards.

Recent Accounting Pronouncements

Refer to the notes to our consolidated financial statements for a description of relevant recent accounting pronouncements.

Results of Operations for the Period from Inception (January 30, 2014) through December 31, 2014

We were formed on January 30, 2014 as a Maryland corporation and were capitalized on March 28, 2014 by our then sole stockholder, Aspen. We commenced operations upon the closing of the Original Private Placement on July 8, 2014. Upon the closing of the Original Private Placement, the Company used \$48.8 million of the proceeds to acquire its initial mortgage portfolio through the acquisition of 82% of the equity interests in Little Ajax II, LLC. Little Ajax II was an affiliated entity that acquired primarily re-performing mortgage loans and a number of non-performing mortgage loans in a series of transactions between December 1, 2013 and July 7, 2014. In September 2014, we completed a transaction to acquire the remaining interests in this initial mortgage-related asset portfolio. The transaction initially had Little Ajax II redeem the 82% membership interest of the operating partnership by distributing to the operating partnership 82% of all Little Ajax II loans, participation interests and real property. The operating partnership then purchased for cash the remaining 18% interest in such real estate assets for an aggregate purchase price of approximately \$11.4 million. The operating partnership also purchased for cash from Gregory, its 5% interest in the 43 loans in which Little Ajax II held a 95% participation interest for approximately \$0.2 million. Our results of operations for the period ended December 31, 2014 do not reflect a full year of operating results. On average, the loans in the portfolio at December 31, 2014 were held for approximately 93 days of the year. The results of operations for the period presented below are not indicative of our expected results in future periods.

From inception through December 31, 2014, the Company aggregated a portfolio consisting primarily of 1,363 mortgage loans secured by single and one-to-four family residences with an aggregate UPB of \$308.2 million. The Company acquired the loans at an aggregate purchase price of \$214.4 million. Re-performing loans represented \$223.8 million UPB and a \$163.9 million purchase price and non-performing loans represented \$84.4 million UPB and a \$50.5 million purchase price. The purchase price for re-performing loans and non-performing loans equaled 70.6% and 59.7%, respectively, of the estimated market value of the underlying collateral.

As of December 31, 2014, our portfolio of mortgage-related assets consisted of the following:

Portfolio as of December 31, 2014

No. of Loans(1)	1,340
Total UPB	\$ 304,516,485
Interest-Bearing Balance	\$ 283,981,030
Deferred Balance(2)	\$ 20,535,455
Market Value of Collateral(3)	\$ 313,669,168
Price/Total UPB(3)	69.8%
Price/Market Value of Collateral	67.9%
Weighted Average Coupon(4)	5.06%
Weighted Average LTV(5)	114%
Remaining Term (as of 12/31/2014)	299.5
No. of first liens	1,327
No. of second liens	13
No. of Rental Properties	3
Market Value of Rental Properties	\$ 366,900
Capital Invested	289,954
Price/Market Value of Rental Properties	79.0%

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Gross Rent/Month	\$ 3,800
Other REO	12
Market Value of Other REO	\$ 2,068,500

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(1)
Information reflects 1 loan in which we hold a 40.5% beneficial interest through an equity method investee and 24 loans in which we have a 95% participation interest and are owned by the Servicer because neither we nor our subsidiaries have the necessary licenses in certain states.

(2)
Amounts that have been deferred in connection with a loan modification on which interest does not accrue. These amounts generally become payable at the time of maturity.

(3)
As of date of acquisition.

(4)
Our loan portfolio consists of fixed rate (53.4% of UPB), ARM (28.2% of UPB) and Hybrid ARM (18.4% of UPB) mortgage loans with original terms to maturity of not more than 40 years.

(5)
UPB as of December 31, 2014 divided by market value of collateral as of date of acquisition.

We closely monitor the status of our mortgage loans and through our Servicer, work with our borrowers to improve their payment records. We have not experienced material write downs or impairments on the mortgage loans purchased since commencement of operations in July 2014. As of December 31, 2014, of the 1,340 loans in our portfolio, 72.7% were re-performing loans and 27.3% were non-performing loans. The following chart shows the percentages of our portfolio, based on total price paid, represented by non-performing loans and re-performing loans at December 31, 2014.

Loan Portfolio as of December 31, 2014

The following table sets forth the years in which our mortgage loans were originated based upon UPB:
Mortgage Loan Origination at December 31, 2014

Years of Origination	Percentage of UPB
Prior to 1990	0.2%
1990 – 2000	1.4%
2001 – 2005	20.9%
2006 – 2008	71.1%
After 2008	6.4%

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The following table identifies the mortgage loans by state, number of loans, loan value and collateral value and percentages thereof for the assets acquired through December 31, 2014 identified above:

Assets By State As of December 31, 2014

State	Loan Count	UPB (\$)	% of UPB	Collateral Value(1)	% of Collateral Value
FL	319	77,185,355	25.3%	68,562,978	21.9%
CA	138	45,065,165	14.8%	45,967,117	14.7%
NY	97	30,948,524	10.2%	39,501,200	12.6%
NJ	84	28,202,761	9.3%	27,035,767	8.6%
MD	65	17,542,983	5.8%	18,748,900	6.0%
IL*	61	12,771,417	4.2%	11,281,725	3.6%
MA	36	10,467,278	3.4%	11,141,000	3.6%
AZ	41	10,150,902	3.3%	8,588,000	2.7%
TX	66	7,113,129	2.3%	10,017,600	3.2%
GA*	45	6,661,866	2.2%	6,400,493	2.0%
VA	28	5,374,937	1.8%	6,004,082	1.9%
PA	54	4,647,279	1.5%	5,829,000	1.9%
OR**	10	4,401,875	1.4%	5,875,614	1.9%
OH	39	4,345,413	1.4%	4,695,218	1.5%
NC	30	3,202,658	1.1%	3,229,004	1.0%
MI	21	2,986,830	1.0%	3,233,460	1.0%
AL	13	2,984,862	1.0%	2,690,800	0.9%
CT	10	2,698,765	0.9%	2,935,500	0.9%
WA	13	2,533,058	0.8%	2,615,500	0.8%
NV	12	2,505,495	0.8%	1,923,500	0.6%
HI	7	2,165,109	0.7%	3,521,405	1.1%
CO	10	2,103,192	0.7%	2,405,000	0.8%
SC	14	1,991,894	0.7%	1,883,000	0.6%
State	Loan Count	UPB (\$)	% of UPB	Collateral Value(1)	% of Collateral Value
TN	18	1,908,929	0.6%	2,457,000	0.8%
WI	12	1,673,355	0.5%	1,790,500	0.6%
IN	16	1,612,255	0.5%	1,909,755	0.6%
UT	9	1,559,641	0.5%	1,880,000	0.6%
DC	6	1,433,495	0.5%	2,677,000	0.9%
MO*	9	1,285,120	0.4%	1,297,975	0.4%
RI	5	1,040,121	0.3%	937,375	0.3%
MS	8	832,574	0.3%	885,000	0.3%
LA	6	663,838	0.2%	718,900	0.2%
MN	5	587,585	0.2%	660,000	0.2%

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KY*	5	555,458	0.2%	643,000	0.2%
DE	2	429,552	0.1%	370,000	0.1%
OK	5	370,383	0.1%	388,000	0.1%
AR	3	363,282	0.1%	466,000	0.1%
ID	3	360,686	0.1%	630,000	0.2%
WV	3	354,776	0.1%	287,000	0.1%
KS	3	320,300	0.1%	308,500	0.1%
IA	4	294,595	0.1%	279,400	0.1%
PR	1	294,298	0.1%	370,000	0.1%
SD	1	218,248	0.1%	229,900	0.1%
NE	2	171,826	0.1%	183,000	0.1%
MT	1	135,419	0.0%	215,000	0.1%
Total	1340	304,516,485	100.0%	313,669,168	100.0%

*

Information reflects 24 loans in which we have a 95% participation interest and are owned by the Servicer because neither we nor our subsidiaries have the necessary licenses in certain states.

**

Information reflects 1 loan in which we hold a 40.5% beneficial interest through an equity method investee.

(1)

As of date of acquisition.

As of December 31, 2014, ten mortgage loans, representing 0.57% of our UPB at that time, had been repaid.

Income

Our net interest income was \$6.2 million for the period ended December 31, 2014, and our consolidated net income attributable to common stockholders for the period was \$3.4 million, or diluted earnings per share of \$0.40. Our primary source of income is interest earned on our loan portfolio. Other income primarily consists of the equity earnings of affiliates, including our Manager. Our operating income for the period included \$4.1 million of non-cash interest income accretion.

Management Fee

The Manager's primary business is asset management. We pay a quarterly base management fee based on our stockholders' equity and a quarterly incentive management fee based on our cash distributions to

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our stockholders. We paid the Manager a base fee for the period ended December 31, 2014 of \$1.0 million of which we paid half, or \$0.5 million, in 31,835 shares of our common stock issued at a price of \$15.00 per share.

Loan Servicing Fee

Pursuant to the servicing agreement, we paid Gregory \$0.5 million for its servicing of our mortgage loan portfolio during the period.

Other Expenses

Other expenses incurred during the period include loan transaction expense, professional fees, directors' fees, and other general and administrative expenses. For the period ended December 31, 2014, in aggregate, these expenses totaled approximately \$1.1 million.

Liquidity and Capital Resources

As of December 31, 2014, all of our invested capital was in re-performing and non-performing loans. We also held approximately \$53.1 million of cash and cash equivalents.

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our stockholders and other general business needs. Our primary sources of cash have consisted of proceeds from the Private Placements and our IPO. We anticipate that our primary sources of cash in the future will generally consist of payments of principal and interest we receive on our loan portfolio, cash generated from operations, including rental payments from our REO and other real estate assets and profits we may earn from the sale of REO, and unused borrowing capacity under our financing sources. Depending on market conditions, we expect that our primary sources of financing will include securitizations, warehouse and credit facilities (including term loans and revolving facilities), repurchase agreements and private and public equity and debt issuances in addition to transaction or asset specific funding arrangements. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

We use cash to purchase mortgage-related assets, repay principal and interest on any borrowings, make distributions to our stockholders and fund operations.

On July 8, 2014, we used a portion of the proceeds, approximately \$48.8 million of the net proceeds, from the Original Private Placement to acquire our initial portfolio of mortgage-related assets by acquiring 82% of the limited liability company interests of Little Ajax II from Flexpoint REIT Investor, one of the Wellington Investors and their respective affiliates. Little Ajax II owned a portfolio of mortgage-related assets consisting of 418 mortgage loans and two single-family rental properties, which it acquired in a series of transactions from unaffiliated parties between December 1, 2013 and July 7, 2014. The approximately \$48.8 million purchase price paid by us for these assets equaled 82% of (a) the original capital contributions of all of the members of Little Ajax II, minus (b) all cash distributions paid out to the members of Little Ajax II prior to the closing date of the acquisition of the interests, plus (c) an amount equal to all interest income received by Little Ajax II on its loans from the date of acquisition of the loan through the closing date, plus (d) an amount equal to all earned discount received by Little Ajax II on its loans from the date of acquisition of the loan through the closing date, plus (e) an amount equal to all accrued but unpaid interest on loans owned directly by Little Ajax II or in which Little Ajax II owned a participation interest that were not more than 60 days delinquent on a contractual basis, up to a maximum of 59 days of interest, minus (f) an amount equal to all servicing fees paid or owed to Little Ajax II in connection with its loans from the date of acquisition of the loan through the closing date.

In September 2014, we completed a transaction to acquire the remaining interests in this initial mortgage-related asset portfolio. The transaction initially had Little Ajax II redeem the 82% membership interest of our operating partnership by distributing to the operating partnership 82% of all Little Ajax II loans, participation interests and real property.

Our operating partnership then purchased for cash the remaining 18% interest in such real estate assets for an aggregate purchase price of approximately \$11.4 million. Our operating partnership also purchased for cash from Gregory its 5% interest in the 43 loans in which Little Ajax II held a 95% participation interest for approximately \$0.2 million.

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In December 2014, we closed the Second Private Placement, which resulted in net proceeds to us of approximately \$41.2 million. To date, we have used the proceeds of the Private Placements to purchase re-performing and non-performing loans, as described above. While we generally intend to hold our assets as long-term investments, we may sell certain of our investments in order to manage our interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions. The timing and impact of future sales of investment securities, if any, cannot be predicted with any certainty. Since we expect that our assets will generally be financed, we expect that a significant portion of the proceeds from sales of our assets (if any), prepayments and scheduled amortization will be used to repay balances under our financing sources. On January 21, 2015, in order to satisfy the REIT requirement that we have at least 100 stockholders as of January 30, 2015, we sold 5,250 shares of common stock to affiliated persons at a price of \$15.00 per share, the last price at which shares were sold to unaffiliated purchasers in the Second Private Placement in December 2014, for an aggregate purchase price of \$0.1 million.

The Company completed its IPO in February and March 2015 and sold an aggregate of 3,976,464 shares of common stock, including shares sold pursuant to exercise of the option to purchase additional shares granted to the underwriters. We are using the approximately \$53.9 million of proceeds (after deducting the underwriting discount but before deducting estimated offering expenses) to acquire additional mortgage loans and mortgage-related assets. We have completed two securitizations since we commenced operations. The securitizations are structured as debt financings and not REMIC sales, and the loans included in the securitizations remain on the Company's balance sheet. We have used the proceeds from these securitizations to acquire additional re-performing and non-performing loans. On October 7, 2014, our operating partnership as seller entered into a securitization transaction pursuant to Rule 144A under the Securities Act of a pool of seasoned, performing and non-performing mortgage loans primarily secured by first liens on one-to-four family residential properties. Ajax Mortgage Loan Trust 2014-A issued \$61 million in securities consisting of approximately \$45 million 4.00% Class A Notes due 2057, \$8 million 5.19344% Class B-1 Notes due 2057, \$8 million 5.19344% Class B-2 Notes due 2057 and a \$20.4 million Trust Certificate. We have retained the Class B Notes. The Trust Certificate issued by the trust and the beneficial ownership of the trust are retained by Great Ajax Funding LLC as the depositor. The Class A Notes are senior, sequential pay, fixed rate notes. The Class B Notes are subordinate, sequential pay, fixed rate notes with Class B-2 Notes subordinate to the Class B-1 Notes. If the Class A Notes have not been redeemed by the payment date in September 2017 or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the Class B-1 and the Class B-2 Notes will be paid as principal to the Class A Notes on that date and each subsequent payment date until the Class A Notes are paid in full. After the Class A Notes are paid in full, the Class B-1 and Class B-2 Notes will resume receiving their respective interest payment amounts and any interest that accrued but was not paid to the Class B Notes while the Class A Notes were outstanding. As the holder of the Trust Certificate, we are entitled to receive any remaining amounts in the trust after the Class A Notes and Class B Notes have been paid in full. The Class A Notes and Class B Notes are secured solely by mortgage loans of 2014-A and not by any of our other assets. The assets of 2014-A are the only source of repayment and interest on the Class A Notes and the Class B Notes. We do not guaranty any of the obligations of 2014-A under the terms of the agreement governing the notes or otherwise.

On November 19, 2014, our operating partnership as seller entered into a securitization transaction pursuant to Rule 144A of a pool of seasoned, performing and non-performing mortgage loans primarily secured by first liens on one-to-four family residential properties. Ajax Mortgage Loan Trust 2014-B issued \$68.7 million in securities, consisting of approximately \$41.2 million 3.85% Class A Notes due 2054, \$13.7 million 5.25% Class B-1 Notes due 2054, and \$13.7 million 5.25% Class B-2 Notes due 2054 and a \$22.9 million Trust Certificate. We have retained the Class B Notes. The Trust Certificate issued by the trust and the beneficial ownership of the trust are retained by Great Ajax Funding LLC as the depositor. The Class A Notes are senior, sequential pay, fixed rate notes. The Class B Notes are subordinate, sequential pay, fixed rate notes with Class B-2 Notes subordinate to Class B-1 Notes. If the Class A Notes have not been redeemed by the payment date in October 2018 or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the Class B-1 and the Class B-2 Notes will be paid as principal to the Class A Notes on that date until the Class A Notes are paid in full. After the Class A Notes are paid in full, the Class B-1 and Class B-2 Notes will resume

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receiving their respective interest payment amounts and any interest that accrued but was not paid to the Class B Notes while the Class A Notes were outstanding. As the holder of the Trust Certificate, we are entitled to receive any remaining amounts in the trust after the Class A Notes and Class B Notes have been paid in full. The Class A Notes and Class B Notes are secured solely by the mortgage loans of 2014-B and not by any of our other assets. The assets of 2014-B are the only source of repayment and interest on the Class A Notes and the Class B Notes. We do not guaranty any of the obligations of 2014-B under the terms of the agreement governing the notes or otherwise.

On November 25, 2014, we entered into a repurchase facility pursuant to which a newly formed Delaware statutory trust wholly owned by the operating partnership, AJX Mortgage Trust I, the “Seller,” will acquire, from time to time, pools of mortgage loans that are primarily secured by first liens on one-to-four family residential properties from its affiliates and/or third party sellers. These mortgage loans will generally be sold from time to time by the operating partnership, as the “Guarantor” to the Seller pursuant to the terms of a mortgage loan purchase agreement by and between the Guarantor, as seller, and the Seller as purchaser, in accordance with the terms thereof. Pursuant to the Master Repurchase Agreement, or MRA, these mortgage loans, together with certain other property of the Seller will be sold by the Seller to Nomura Corporate Funding Americas, LLC, as Buyer, from time to time pursuant to one or more transactions, not exceeding \$100 million, with a simultaneous agreement by the Seller to repurchase such mortgage loans and other property, as provided in the MRA. The obligations of the Seller are guaranteed by the operating partnership. Repurchases under this facility carry interest calculated based on a spread to one-month LIBOR and are fixed for the term of the borrowing. The purchase price for each mortgage loan or REO is generally equal to 65% of the acquisition price for such asset or the then current BPO for the asset. The difference between the market value of the asset and the amount of the repurchase agreement is the amount of equity we have in the position and is intended to provide the lender some protection against fluctuations of value in the collateral and/or the failure by us to repay the borrowing at maturity. We have effective control over the assets associated with this agreement and therefore has concluded this is a financing arrangement. The facility termination date is November 24, 2015.

Gregory services these mortgage loans and the REO properties pursuant to the terms of a servicing agreement by and among the Servicer, the Seller, REO I and any other REO Subsidiary, which servicing agreement has the same fees and expenses terms as the Company’s servicing agreement described under “Certain Relationships and Related Party Transactions — Gregory Servicing Agreement.” The operating partnership as Guarantor will provide to the Buyer a limited guaranty of certain losses incurred by the Buyer in connection with certain events and/or the Seller’s obligations under the MLPA, following the breach of certain covenants by the Seller or an REO Subsidiary related to their status as a special purpose entity, the occurrence of certain bad acts by the Seller Parties, the occurrence of certain insolvency events of the Seller or an REO Subsidiary or other events specified in the Guaranty. As security for its obligations under the Guaranty, the Guarantor will pledge the Trust Certificate representing the Guarantor’s 100% beneficial interest in the Seller.

We are not required by our investment guidelines to maintain any specific debt-to-equity ratio, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

We may declare dividends based on, among other things, our earnings, our financial condition, our working capital needs, new opportunities, and distribution requirements imposed on REITs. The declaration of dividends to our stockholders and the amount of such dividends are at the discretion of our board of directors. On November 12, 2014, we declared a dividend of \$0.08 per share, which was paid on December 4, 2014 to stockholders of record as of November 21, 2014. On January 16, 2015, we declared a dividend of \$0.16 per share, which was paid on January 30, 2015 to stockholders of record as of January 13, 2015.

We believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the

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purpose of facilitating off-balance sheet arrangements. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

Contractual Obligations

A summary of our contractual obligations as of December 31, 2014 is as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(in thousands)				
Secured borrowings	\$ 84,679	\$ —	\$ —	\$ —	\$ 84,679
Borrowings under repurchase agreement	15,249	15,249	—	—	—
Total	\$ 99,928	\$ 15,249	\$ —	\$ —	\$ 84,679

Inflation

Virtually all of our assets and liabilities are interest-rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

The primary components of our market risk are related to real estate risk, interest rate risk, prepayment risk and credit risk. We seek to actively manage these and other risks and to acquire and hold assets at prices that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

Quantitative and Qualitative Disclosures About Market Risk**Real Estate Risk**

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values could cause us to suffer losses.

Interest Rate Risk

We expect to continue to securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate MBS so created. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Changes in interest rates may affect the fair value of the mortgage loans and real estate underlying our portfolios as well as our financing interest rate expense.

We believe that a rising interest rate environment could have a positive net effect on our operations to the extent we will own rental real property or seek to sell real property. Rising interest rates could be accompanied by inflation and higher household incomes which generally correlate closely to higher rent levels and property values. Even if our interest and operating expenses rise at the same rate as rents, our operating profit could still increase. Despite our beliefs, it is possible that the value of our real estate assets and our net income could decline in a rising interest rate environment to the extent that our real estate assets are financed with floating rate debt and there is no accompanying increase in rental yield or property values.

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We currently do not intend to hedge the risk associated with the mortgage loans and real estate underlying our portfolios. However, we may undertake risk mitigation activities with respect to our debt financing interest rate obligations. We expect that our debt financing may at times be based on a floating rate of interest calculated on a fixed spread over the relevant index, as determined by the particular financing arrangement. A significantly rising interest rate environment could have an adverse effect on the cost of our financing. To mitigate this risk, we may use derivative financial instruments such as interest rate swaps and interest rate options in an effort to reduce the variability of earnings caused by changes in the interest rates we pay on our debt.

These derivative transactions will be entered into solely for risk management purposes, not for investment purposes. When undertaken, these derivative instruments likely will expose us to certain risks such as price and interest rate fluctuations, timing risk, volatility risk, credit risk, counterparty risk and changes in the liquidity of markets. Therefore, although we expect to transact in these derivative instruments purely for risk management, they may not adequately protect us from fluctuations in our financing interest rate obligations.

Prepayment Risk

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect of the mortgage loans we will own as well as the mortgage loans underlying our retained MBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. Changes in prepayment rates will have varying effects on the different types of assets in our portfolio. We attempt to take these effects into account. We will generally purchase re-performing and non-performing loans at significant discounts from UPB and underlying property values. An increase in prepayments would accelerate the repayment of the discount and lead to increased yield on our assets while also causing re-investment risk that we can find additional assets with the same interest and return levels. A decrease in prepayments would likely have the opposite effects.

Credit Risk

We are subject to credit risk in connection with our assets. While we will engage in diligence on assets we will acquire, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead us to misprice acquisitions. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors), 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.

There are many reasons borrowers will fail to pay including but not limited to, in the case of residential mortgage loans, reductions in personal income, job loss and personal events such as divorce or health problems, and in the case of commercial mortgage loans, reduction in market rents and occupancies and poor property management services by borrowers. We will rely on the Servicer to mitigate our risk. Such mitigation efforts may include loan modifications and prompt foreclosure and property liquidation following a default. If a sufficient number of re-performing borrowers default, our results of operations will suffer and we may not be able to pay our own financing costs.

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BUSINESS

Overview

Great Ajax Corp. is a Maryland corporation that focuses primarily on acquiring, investing in and managing a portfolio of re-performing and non-performing mortgage loans secured by single-family residences and, to a lesser extent, single-family properties. We also invest in loans secured by multi-family residential and commercial mixed use retail/residential properties, as well as in the properties directly. The multi-family and commercial mixed-use properties generally have loan values of up to approximately \$5 million. We refer to these as “smaller commercial properties.” We commenced operations on July 8, 2014. In July and August 2014 we closed the Original Private Placement that resulted in net proceeds to us of approximately \$128.4 million. In December 2014, we closed the Second Private Placement, which resulted in net proceeds to us of approximately \$41.2 million. Through January 31, 2015, we acquired mortgage loans and other mortgage-related assets with an aggregate UPB of approximately \$321.1 million. We completed our IPO in February and March 2015 and sold an aggregate of 3,976,464 shares of common stock, including shares sold pursuant to an option to purchase additional shares granted to the underwriters. We are using the approximately \$53.9 million of proceeds (after deducting the underwriting discount but before deducting estimated offering expenses) to acquire additional mortgage loans and mortgage-related assets. We are organized and operated in a manner intended to allow us to qualify as a REIT.

Our primary strategy is to acquire, own and manage re-performing and non-performing mortgage loans, which are serviced by Gregory Funding LLC, our affiliated servicer. We seek to acquire loans at significant discounts to our estimates of the value of the underlying real estate and of the UPB of the loan. Unlike other loan acquirers, who often rely on pooled estimates in analyzing and pricing portfolios, our Manager uses proprietary models and data developed by its affiliates to evaluate individual assets and to help determine cities, neighborhoods and properties that it believes will experience HPA. These proprietary analytics have inputs for economic and demographic data that include changes in unemployment rates, median household incomes, housing starts, crime rates, education, electoral participation and other variables that we believe closely correlate to property values. The proprietary models predict probabilistic future cash flows for each loan we seek to acquire. Factors affecting our cash flow projections include resolution method, resolution timeline, foreclosure costs, rehabilitation costs and eviction costs. The database for these proprietary models contains foreclosure timelines on an individual county basis and, in some instances, also on an individual judge basis. We believe that these proprietary models permit us to acquire loans at prices we and the Manager believe represent a discount to UPB and current property values in non-auction purchases.

We generally intend to securitize our mortgage loans and retain subordinated securities from our securitizations. We also hold REO acquired upon the foreclosure or other settlement of our owned non-performing loans as well as through outright purchases. We anticipate our REO will consist principally of single-family homes, although we also may own smaller commercial properties. Our resolution methods are tailored to each loan, based on our Servicer’s detailed analytics, and include, among others, loan modification, forbearance agreements, foreclosure, short sale and deed-in-lieu of foreclosure. In the event of foreclosure, our Manager determines, in part based on the information obtained from the Servicer regarding historical experience, whether to seek to sell any REO asset, including offering mortgage financing to the purchaser, or to hold the REO as a rental property. We may conduct some of these activities through a TRS. As part of our integrated approach, the Servicer focuses on understanding each borrower’s situation and working closely with the borrower to determine the most appropriate resolution for both parties. We believe that purchasing re-performing and non-performing mortgage loans at significant discounts to UPB and underlying property values, as well as working, through Gregory, to support continuing or new payments by borrowers, will allow us to achieve our targeted returns. However, if actual results differ from our assumptions, particularly if the value of the underlying properties were to decrease significantly, we may not achieve our targeted returns.

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We are externally managed by Thetis Asset Management LLC, an affiliated entity. We own a 19.8% equity interest in our Manager. In addition, our Manager and the Servicer own in the aggregate 373,168 shares of our common stock. We believe that these ownership interests, combined with our paying 50% of the base management fee to our Manager in shares of our common stock, align our Manager's interests with our interests and those of our stockholders. See "Our Manager and the Management Agreement—Management Fees."

We believe that we will benefit from the strategies employed by Aspen Capital, Gregory and our Manager. Aspen Capital and Gregory have successfully competed in the residential loan and property markets based on their ability to evaluate, acquire, manage and service loans on an individual basis rather than on a pooled basis. Using proprietary analytics and data tracking, our Manager and Gregory have the ability to evaluate large numbers of loans efficiently, determine individual valuations and develop resolution and cash flow paths. Consistent with Aspen's past residential asset acquisitions and our recent operations, we believe that we will be able to purchase loans through privately negotiated transactions rather than in the auction market. Since January 1, 2012 through December 31, 2014, over 90% of Aspen's acquisitions have been through privately negotiated transactions.

The Aspen Capital Companies

The Aspen Capital group was founded in 1995 and focuses primarily on residential and commercial mortgage loans and real properties, as well as distressed corporate securities, and hospitality investments and management. Aspen Capital management and affiliates have been securitizing residential mortgage loans and retaining interests in their own securitizations as well as buying, servicing and managing real estate assets for more than 15 years. Aspen Yo LLC, its residential real estate group, acquires non-performing and re-performing mortgage loans as well as foreclosed properties. From January 1, 2012 through December 31, 2014, Aspen and its affiliates, including the Company, acquired loans totaling approximately \$661.3 million total UPB, consisting of 3,063 mortgage loans in 124 separate transactions, with the underlying real estate located throughout the United States. Over 90% of such acquisitions were purchased through privately negotiated transactions rather than auctions. The average purchase price was 70.7% of UPB and 70.2% of property value for re-performing loans, and 52.2% of UPB and 57.5% of property value for non-performing loans. Many of these assets are located in specifically targeted geographic locations. The commercial real estate group also purchases performing and non-performing commercial real estate loans and non-performing construction loans and provides senior, mezzanine and equity financing. The typical transaction size ranges from \$1 to \$20 million.

Manager Experience

Since 2009 through December 31, 2014, the management team of our Manager, on behalf of Aspen Capital, has invested more than \$500.2 million in more than 3,792 residential assets, including the assets in our portfolio, with an aggregate UPB and REO market value at time of purchase or conversion of approximately \$841.6 million. Aspen Capital's overall portfolios of loans and properties may differ significantly from the mortgage loans we may acquire in terms of interest rates, principal balances, geographic distribution, types of properties, lien priority, origination and underwriting criteria, and other possibly relevant characteristics. In addition, Aspen Capital's past performance is not indicative of future results and its results were not achieved by a public company (subject to legal and regulatory expenses) nor by an entity organized as a REIT. Results are necessarily reflective of particular market conditions and current and future market conditions and economic factors beyond management's control, which may cause future results to vary.

The Servicer

Gregory was formed by the members of our Manager's management team to service "high touch" assets, which are loans that require substantial and active interaction with the borrower for modification or other resolution. These loans are to less creditworthy borrowers or for properties the value of which has decreased and are more expensive to service because they require more frequent interaction with customers and greater monitoring and oversight. Gregory, or its wholly owned subsidiary, is licensed to service loans in all states in which it does business and has unsupervised Title II Mortgagee authorization from the FHA.

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Gregory, or its wholly owned subsidiary, is also a licensed mortgage lender in 23 states, and currently has mortgage loan origination staff who are licensed in 11 of those states. Gregory also has a joint marketing relationship with a federal savings bank in which Aspen holds a minority interest. These resources will allow Gregory to facilitate third party mortgage financing, which we then can acquire, to many of the purchasers of REO that we sell in such states with no or minimal additional cost to us. As of December 31, 2014, Gregory, for our account, its own account and for affiliated entities comprised primarily of third-party investors, services a portfolio of residential and commercial mortgage loans and REO throughout the United States with UPB and REO principal balance of approximately \$627.5 million.

Our Manager and the Servicer are located in separate premises in the same building and share IT resources, which should lead to more effective oversight by our Manager. We also believe this close collaboration will lead to better communication among our Manager, the Servicer and us and greater ability by our Manager and the Servicer to enhance IT systems and upgrade analytics with desired features, which should enable our Manager and the Servicer to determine the optimal resolution strategy for each loan more quickly. Our Manager communicates an initial pool level strategy to the Servicer and hosts a training session to review priorities and optimal solutions. During the training session, our Manager can discuss any exceptions found during the due diligence process and provide guidance to the Servicer on addressing any issues effectively. In addition to training sessions and informal discussions, both parties meet weekly to review individual modification requests. Every employee of our Manager is very familiar with all functions of the Servicer, which allows them to monitor performance at a granular level to maximize individual asset returns.

The Servicer must comply with a wide array of U.S. federal, state and local laws and regulations that regulate, among other things, the manner in which it services our mortgage loans and manages our real property in accordance with the servicing agreement, including recent CFPB mortgage servicing regulations promulgated pursuant to the Dodd-Frank Act. These laws and regulations cover a wide range of topics. The laws and regulations are complex and vary greatly among the states and localities. In addition, these laws and regulations often contain vague standards or requirements, which make compliance efforts challenging. From time to time, the Servicer may become party to certain regulatory inquiries or proceedings, which, even if unrelated to the residential mortgage servicing operation, may result in adverse findings, fines, penalties or other assessments and may affect adversely the Servicer's reputation. For example, in 2012, in connection with its activities as a mortgage lender, and not its residential mortgage servicing business, the Servicer consented to and signed a "cease and desist" order issued by the Oregon Department of Consumer and Business Services, Division of Finance and Corporate Securities, relating to disclosure forms for twelve loan files for the period from 2005 to 2008. The Servicer agreed to pay a civil penalty of \$50,000 of which \$10,000 was suspended in exchange for continuing compliance.

Market Opportunity

The U.S. Federal Reserve estimates that as of December 31, 2014, there was approximately \$9.9 trillion of mortgage loans outstanding on U.S. one-to-four family residential properties and approximately \$994.1 billion of mortgage loans outstanding on U.S. multi-family residential properties.

While housing starts increased in 2014 over 2013, the number of building permits issued in the fourth quarter of 2014 indicates that starts may be leveling off for single-family homes (an increase of 3% compared to the third quarter). Although construction starts on single-family homes were up 8% from the previous quarter and up 6% from the fourth quarter of 2013, they remain significantly below historical levels. In addition to the leveling of housing starts, a persistent price gap exists between newly built homes and existing homes with sales of existing homes showing improvements while sales of new homes continued to lag in the fourth quarter of 2014. Furthermore, HUD has noted that the listed inventories of new and of existing homes at the end of the fourth quarter of 2014 would support 5.4 months and 4.4 months, respectively, of sales at the current sales pace, while historical average supply of homes on the market is 6.0 months. The MBA estimates that total one-to-four family mortgage loan originations (including both purchase and refinance transactions) will increase from \$1.1 trillion in 2014 to \$1.2 trillion in 2015.

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Monthly Housing Starts: New Privately Owned Housing Units Started
(Feb. 1961–Feb. 2015)

Source: U.S Department of Commerce—Census Bureau

In addition to fewer housing starts, a persistent price gap exists between newly built homes and existing homes. While new homes are almost always more expensive, on average, than their older comparables, that gap has widened since the last recession.

Cyclical trends are prompting a significant realignment within the mortgage sector. These trends and their effects include:

- continuing sales of residential mortgage assets by banks and other mortgage lenders due to elevated operating costs resulting from new regulatory requirements, delinquencies and impairments;
- the continuing decline in home ownership that, conversely, has increased the demand for single-family and multi-family residential rental properties and associated rents;
- the dislocations in the residential mortgage loan origination market and the limited availability of financing for non-GSE mortgages since 2008, which have made qualifying for a mortgage loan more difficult. These factors, combined with shifting demographic trends and the need for families pushed out of their homes through foreclosure or the inability to continue to pay their mortgage loans, are driving increased demand for loan modifications, non-GSE mortgage financing and single-family rental properties;
- the changing regulatory landscape, leading to the reduction of the government's role in, and the return of private capital, including non-bank participants, to the housing finance market; some of the changes have begun to be implemented, as evidenced by the tightening of conforming loan limits and increases in guarantee fees; and
- unemployment remaining relatively high, under-employment continuing to be a concern and real wages continuing to be stagnant, which means that the ability of borrowers to continue to pay their existing mortgage loans will likely remain under pressure.

The current market landscape is also generating new opportunities in residential mortgage-related whole loan strategies. The origination of subprime and alternative residential mortgage loans has dramatically declined since 2008 and the new QM and ATR Rule requirements will also put pressure on new originations. Additionally, many banks and other mortgage lenders have increased their credit standards and down payment requirements for originating new loans.

The combination of these factors has also resulted in a significant number of families that cannot qualify to obtain new residential mortgage loans. We believe new U.S. federal regulations addressing “qualified mortgages” based, among other factors on employment status, debt-to-income level, impaired

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credit history or lack of savings, will continue to limit mortgage loan availability from traditional mortgage lenders. In addition, we believe that many homeowners displaced by foreclosure or who either cannot afford to own or cannot be approved for a mortgage will prefer to live in single-family rental properties with similar characteristics and amenities to owned homes as well as smaller multi-family residential properties. In certain demographic areas, new households are being formed at a rate that exceeds the new homes being added to the market, which we believe favors future demand for non-federally guaranteed mortgage financing for single-family and smaller multi-family rental properties. For all these reasons, we believe that demand for single-family and smaller multi-family rental properties will increase in the near term and remain at heightened levels in the foreseeable future.

We expect the availability of pools of re-performing, sub-performing and non-performing loans, properties in foreclosure and REO to increase and remain elevated over the next several years. The single family mortgage delinquency rate at December 31, 2014 is 6.71%, according to the Federal Reserve Board. Overall housing values have rebounded since 2012; however, CoreLogic®, a leading global property information, analytics and data-enabled services provider, has reported that approximately 5.4 million homes, or 10.8% of all residential properties with a mortgage, were in a negative position as of the end of the third quarter 2014. Negative equity, often referred to as “underwater” or “upside down,” means that borrowers owe more on their mortgages than their homes are worth. Negative equity can occur because of a decline in value, an increase in mortgage debt or a combination of both. For the homes in negative equity status, the national aggregate value of negative equity was \$349 billion at the end of the fourth quarter of 2014, up \$7 billion from approximately \$342 billion at the end of the third quarter 2014. In addition, Corelogic® reports that of the 49.9 million residential properties with equity, approximately 10 million have less than 20% equity. Borrowers with less than 20% equity, referred to as “under-equited,” may have a more difficult time refinancing their existing home or obtaining new financing to sell and buy another home due to underwriting constraints. Under-equited mortgages accounted for 20% of all residential properties with a mortgage nationwide in the third quarter of 2014, with more than 1.4 million residential properties at less than 5% equity, referred to as near-negative equity. Properties that are near-negative equity are considered at risk if home prices fall. Further, a portion of the 800,000 borrowers with low interest rates under the HAMP for the past five years will begin seeing mortgage payment increases in 2014. Generally, their interest rates will increase by one percentage point each year until their rate equals the average 30-year, fixed-rate mortgage rate at the time of modification. 11% of HAMP borrowers have already missed at least one payment, and we believe that wages and home prices have not improved enough for many of these borrowers to afford the monthly payment increase. In June, September and November 2014, the FHA held note sales under the Distressed Asset Stabilization Program of 2014, or DASP, as part of a broad effort by the FHA to decrease losses and market and sell non-performing loans in bulk. Further such sales are expected. In addition, in July 2014 and March 2015, Freddie Mac sold \$659 million and \$392 million, respectively, of non-performing loans, and both Fannie Mae and Freddie Mac have indicated that they will have ongoing non-performing loan sales programs going forward.

We also believe that banks and other mortgage lenders have strengthened their capital bases and are more aggressively foreclosing on delinquent borrowers or selling these loans to dispose of their inventory. Additionally, many non-performing loan buyers are now interested in reducing their investment duration and have begun selling re-performing loans.

We also believe there are significant attractive investment opportunities in the smaller commercial mortgage loan and property markets. We focus on densely populated urban areas where we expect positive economic change based on certain demographic, economic and social statistical data. The primary lenders for smaller multi-family and mixed retail/residential properties are community banks and not regional and national banks and large institutional lenders. We believe the primary lenders and loan purchasers are less interested in these assets because they typically require significant commercial and residential mortgage credit and underwriting expertise, special servicing capability and active property management. It is also more difficult to create the large pools that these primary banks, lenders and portfolio acquirers typically desire. Many community banks also remain under financial and regulatory pressure since the financial crisis and are now beginning to sell smaller commercial mortgage loans as property values have begun to increase.

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Strategy

We are continuing the opportunistic strategy developed by our Manager's management team at Aspen in a REIT structure that we believe will provide us access to capital and allow us to compete for more significant investment opportunities in the evolving mortgage markets. This strategy enables us to generate attractive current yields and risk-adjusted total returns for our stockholders. We intend to distribute substantially all of our REIT taxable income to our stockholders in accordance with applicable REIT qualification requirements. Our strategy consists of:

- focusing our investments primarily in loans secured by single-family residences with opportunistic mortgage or direct investment in smaller commercial properties, such as smaller mixed-use commercial facilities with ground floor retail units and residences above them;
- constructing and owning a portfolio of re-performing and non-performing mortgage loans at significant discounts to UPB and underlying property values;
- concentrating our investments in geographic areas, cities and neighborhoods with certain demographic and economic trends and attributes;
- working, through Gregory, to (1) support the continued performance of re-performing loans; (2) convert a portion of our non-performing loans to performing status; (3) determine optimal loss mitigation strategy on an asset-by-asset basis for remaining loans; and (4) manage the process and timelines for converting non-performing loans to sale or rental REO, including potentially offering financing to REO purchasers;
- when economically efficient, securitizing our performing and re-performing whole loan portfolios to create long-term, fixed rate, non-recourse financing, while retaining one or more tranches of any subordinated securities we may create; and
- opportunistically mitigating our interest rate and prepayment risk by using a variety of hedging instruments.

We believe that purchasing re-performing and non-performing mortgage loans at significant discounts to UPB and underlying property values, as well as working, through Gregory, to support continuing or new payments by borrowers, will allow us to achieve our targeted returns. However, if actual results differ from our assumptions, particularly if the value of the underlying properties were to decrease significantly, we may not achieve our targeted returns.

We price each loan portfolio on a loan-by-loan basis and focus on the acquisition of loans with the underlying property located in or in close proximity to urban centers where we believe that HPA will outpace the national market. While we expect to purchase loans nationwide, we target urban centers (including densely populated suburbs) because we believe that an increasing number of families and young professionals prefer to live in areas that are in close proximity to employment centers, public transportation and retail and other amenities that are typically more common in such areas, which provides greater potential for HPA. By focusing on urban centers and targeted densely populated suburbs we are able to more efficiently manage our portfolio and scale our high-touch loan servicing platform. Gregory has compiled data that suggests that HPA can vary significantly from neighborhood to neighborhood even within the same city. Our proprietary analytics include inputs for economic and demographic data that includes unemployment rates, housing starts, crime rates, education, electoral participation and other variables that we believe closely correlate to property values. These analytics help us determine cities, neighborhoods and properties that we believe will experience HPA.

We seek to build clusters of loans backed by collateral in certain markets. These markets include, but are not limited to, Phoenix, Arizona; Los Angeles and San Diego, California; Miami, Ft. Lauderdale, West Palm Beach, Orlando and Tampa, Florida; Atlanta, Georgia; Chicago, Illinois; New York and New Jersey metropolitan area; Dallas and Houston, Texas; and Maryland and Virginia near Washington, DC. In addition to its experienced servicing staff, Gregory has contracted with local experts in areas where it

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services a significant number of loans that provide local area market intelligence, monitor properties and can manage rehabilitation projects for REO or repairs for rental properties. We believe having affiliated local experts and a centralized management team provides us a competitive advantage and leads to more informed decision-making and better execution.

Based on the experience of our Manager's management team, we believe that acquiring re-performing and non-performing mortgage loans will result in higher risk-adjusted returns and provides us a cost advantage over other real property acquisition channels, such as foreclosure auctions and REO acquisitions.

- We believe that buying re-performing loans is more efficient and lower risk than acquiring REO rentals directly because the net cash flow from the re-performing loans is typically greater than rent cash flow less expenses. Re-performing loans are purchased at a significant discount from UPB and underlying property value, but the borrower pays interest on the full UPB, leading to a higher current yield. The borrower is also responsible for property taxes, insurance and maintenance, which are all costs that the owner of the REO would otherwise have to pay. In addition, to the extent that the UPB exceeds the home's value, the lender will benefit from all HPA until such time as the home price exceeds the UPB plus any arrearages and expenses. While the return to the mortgage loan owner is thus capped, there is also risk mitigation if the REO value decreases, until the value is less than the price the lender paid for the loan.

- The histories of distressed mortgage loans often provide more insight into the likelihood of default than acquiring newly originated mortgage loans, which should allow our Manager to model default risk and price acquisitions more accurately.

- If a re-performing loan becomes a non-performing loan, or we purchase a non-performing loan, which is typically purchased at a deeper discount than re-performing loans, we, through the Servicer, have a number of ways to mitigate our loss. These loss mitigation techniques include working with the borrower to achieve performance, including through modification of the mortgage loan terms as well as short sale, assisted deed-in-lieu of foreclosure, assisted deed-for-lease, foreclosure and other loss mitigation activities. With each REO acquired, we assess the best potential return, typically either through rental, sale with carryback financing, which we believe will increase the potential pool of purchasers, or sale without our financing the purchase.

- We believe that we will be able to purchase mortgage loans at lower prices than REO properties because sellers of such loans will be able to avoid paying the costs typically associated with sales of real estate, whether single-family residences or smaller commercial properties, such as broker commissions and closing costs of up to 10% of gross proceeds of the sale. We believe this will motivate the sellers to accept a lower price for the re-performing and non-performing loans than they would if selling REO directly.

- We believe there are fewer participants in the re-performing and non-performing loan marketplace than in the foreclosure auction and other REO acquisition channels due to the large size of portfolios offered for sale on an "all or none" basis and the required operational infrastructure and expertise involved in servicing loans and managing single-family rental properties across various states. Additionally, as the acquirer of loans, we take the risk of delays in the foreclosure process for non-performing loans. We focus on smaller pools of mortgage loan assets that we analyze on a loan-by-loan basis. We believe that we will be able to aggregate these smaller pools, often at a greater discount than would be available for larger pools. We believe the relatively lower level of competition for re-performing and non-performing loans, particularly in smaller pools, provides buyers with the opportunity for a higher discount rate relative to the foreclosure auction and other REO acquisition channels and therefore a relatively lower cost to acquire REO.

We use proprietary models to predict probabilistic future cash flows for each loan. Factors affecting our cash flow projections include resolution method, resolution timeline, foreclosure costs, rehabilitation costs and eviction costs. We value each portfolio on a loan-by-loan and property-by-property basis and generate cash flow projections as if each non-performing loan was foreclosed and resolved according to the expected resolution method. Some of the variables used are the specific location of the underlying property, loan-to-value ratio, property age and condition, change and rate of change of borrower credit rating,

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servicing notes, interest rate, monthly payment amount and neighborhood rents. For loan pool acquisitions, we target a 10–18% return, without taking into account or giving effect to any borrowings, which we refer to as an unlevered return. We forecast the relative likelihood of each resolution method—foreclosure, deed-in-lieu, short sale and rental—for non-performing loans. For re-performing pool acquisitions, we analyze each loan for re-default probability, loan-to-value ratio, interest rate and structure of the loan and the likely resolution method in the event the loan stops performing. Each re-performing loan is analyzed through both a performing and non-performing path.

Our comprehensive loan and property history database and data tracking lead to a deep understanding of our markets. This understanding, coupled with our long-term relationships with loan sellers, allows us to purchase loans at significant discounts to UPB and current property values. Our database contains foreclosure timelines on an individual county basis and in some instances, also on an individual judge basis. In addition to resolution timeline data, we track data by state, MSA (Metropolitan Statistical Area) and zip code basis regarding crime rates, education, electoral participation and other variables that we believe closely correlate with property values.

Our strategy is adaptable to changing market environments, subject to compliance with the income and other tests that will allow us to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes and to maintain our exclusion from regulation as an investment company under the Investment Company Act. As a result, our acquisition and management decisions will depend on prevailing market conditions, and our targeted investments may vary over time in response to market conditions. We may change our strategy and policies without a vote of our stockholders. Moreover, although our independent directors will periodically review our investment guidelines and our portfolio, they generally will not review particular proposed asset acquisitions or asset management decisions. See “—Investment Guidelines.”

Competitive Strengths

We believe our Manager’s and the Servicer’s integrated platform, which allow us to acquire, finance, hold and, through our Manager and the Servicer, manage and service whole loans and the REO that results from foreclosure on non-performing mortgage loans without reliance on third-party servicers, positions us well to respond opportunistically in a variety of market environments. We believe the following competitive strengths differentiate us from our competitors:

- Flexible and Adaptable Resolution Strategy—The past nearly ten years of market volatility has given our management team the experience, backed by Gregory’s extensive integrated loan servicing and real estate management platform, to assess and respond to changes in our targeted real estate markets to optimize the return to our stockholders. We use a variety of asset optimization strategies including loan modifications, forbearance agreements and property sale, rental or lease options to maximize the value of our ownership of re-performing loans, non-performing loans and the REO we obtain from foreclosure based on our assessment of the optimal return.
- Strong Sourcing Relationships—Our Manager, the Servicer and their affiliates have extensive networks for sourcing investment opportunities through relationships with money center, regional, and community banks as well as large and small private mortgage loan owners and servicers throughout the country. These networks and relationships will provide us with opportunities to acquire our targeted assets in negotiated transactions rather than through auctions and often in pools specifically carved out for our primary geographic investment priorities.
- Affiliated Servicer with Extensive Integrated Mortgage Loan Servicing and Real Estate Management Platform—The Servicer was built specifically to maximize value in the types of “high-touch” assets that we acquire. The Servicer has approximately 50 experienced mortgage servicing and real estate management personnel throughout the country. Its proprietary software platform was developed in-house specifically to handle distressed, sub-performing and re-performing mortgage loans and it enables the servicing representatives to have all necessary tools and information available to resolve borrower interaction efficiently and effectively. The Servicer has eight full-time software development personnel ensuring the quality and reliability of these proprietary analytics and models. The Servicer is focused on understanding the specific

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situation of each borrower so that our Manager will be informed and able to tailor an appropriate resolution for both parties. The Servicer's personnel also have many years of experience managing REO throughout the country and maintaining compliance with ever-changing regulatory requirements.

- Customized Loan Origination and Underwriting—When we determine to sell a particular REO asset, through our Servicer, we have the capability in certain states to underwrite and offer mortgage financing to the purchaser. We rely on Gregory's in-depth knowledge of the properties when we facilitate financing in connection with a sale of a property through an unaffiliated lender. Unlike more traditional lenders, which base their underwriting primarily on the FICO® credit risk score, Gregory focuses on the borrower's cash flow and residual income after satisfaction of monthly requirements, including the expenses for any dependents, employment stability and the ability to make a cash down payment. We may then choose to purchase the loan. We believe that our ability to facilitate financing tailored to the particular borrower provides another tool to maximize our return by converting REO to long-term significant net yield generating assets.

- Significant Experience of Our Manager—Each executive on our Manager's team has more than 20 years' experience investing in, analyzing, performing due diligence, originating, restructuring, servicing, managing and/or marketing mortgage loan portfolios and securitizations. Our Manager is supported by approximately eight mortgage and servicing professionals at the Servicer. We believe our Manager and its resources provide a significant advantage to us and contribute to the strength of our business and enhance the quantity and quality of investment opportunities available to us.

- Our Manager's Interests are Closely Aligned with Our and Our Stockholders' Interests—We own 19.8% of the voting and economic interests in our Manager, and we will pay 50% of the base management fee to our Manager in shares of our common stock with the value based on the higher of the most recently reported book value or market value of our common stock. Our incentive fee is based on cash dividends from taxable earnings in excess of an 8.0% hurdle rate. We believe our structure aligns our Manager's interests with our interests and creates incentives for our Manager to seek to maximize value for our stockholders. In addition, our Manager and the Servicer own an aggregate of 373,168 of our shares of common stock, and their institutional equity owners or their affiliates own an aggregate of 4,882,353 shares of our common stock (including 624,106 of OP Units purchased by one such investor that are redeemable on a 1-for-1 basis into shares of our common stock).

Our Portfolio

We acquire, invest in and manage a portfolio of mortgage loan assets as well as single-family and smaller commercial properties. We focus on acquiring and owning re-performing and non-performing mortgage loans and subordinated MBS securities from our own securitizations. We also hold REO acquired upon the foreclosure or other settlement of our owned non-performing loans or that we acquire in the market, principally single-family homes although we may also own smaller commercial properties. We will assess the allocation of investments across asset classes, and within asset classes, based on the risk-adjusted relative value of each asset and the overall contribution of each asset to the anticipated performance of our investment portfolio and the value to be added to our investment portfolio. Additional factors that may affect the allocation of our investments include profiles of borrowers, geographic and demographic information, security, structure, seniority, credit enhancement, and legal matters. Our investment allocations are subject to change based on market changes and our assessment of the factors described above. See also “—Financing Strategy and Use of Leverage.”

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As of January 31, 2015, our portfolio of mortgage-related assets consisted of the following:

Portfolio as of January 31, 2015

No. of Loans(1)	1,449
Total UPB	\$321,133,153
Interest-Bearing Balance	\$299,932,870
Deferred Balance(2)	\$21,200,284
Market Value of Collateral(3)	\$332,302,084
Price/Total UPB(3)	69.9%
Price/Market Value of Collateral	67.7%
Weighted Average Coupon(4)	5.06%
Weighted Average LTV(5)	114%
Remaining Term (as of 1/31/2015)	295.5
No. of first liens	1,434
No. of second liens	15
No. of Rental Properties	3
Market Value of Collateral	\$366,900
Capital Invested	289,954
Price/Market Value of Collateral	79.0%
Gross Rent/Month	\$3,800
Other REO	18
Market Value of Collateral(1)	\$3,009,500

(1)

Information reflects 1 loan in which we hold a 40.5% beneficial interest through an equity method investee, 24 loans in which we have a 95% participation interest and are owned by the Servicer because neither we nor our subsidiaries have the necessary licenses in certain states and 39 loans that closed in February 2015 with a total UPB of \$8.62 million.

(2)

Amounts that have been deferred in connection with a loan modification on which interest does not accrue. These amounts generally become payable at the time of maturity.

(3)

As of date of acquisition.

(4)

Our loan portfolio consists of fixed rate (53.8% of UPB), ARM (28.8% of UPB) and Hybrid ARM (17.4% of UPB) mortgage loans with original terms to maturity of not more than 40 years.

(5)

UPB as of January 31, 2015 divided by market value of collateral as of date of acquisition.

We closely monitor the status of our mortgage loans and through our Servicer, work with our borrowers to improve their payment records. The Company has not experienced material write downs or impairments on the mortgage loans it has purchased since it commenced operations in July 2014. As of January 31, 2015, of the 1,449 loans in our portfolio, 62.4% were re-performing loans, 10.5% were sub-performing loans and 27.1% were non-performing loans. The following chart shows the percentages of our portfolio, based on total price paid, represented by non-performing loans and re-performing loans at January 31, 2015.

Gregory is the holder of record for assets in Georgia, Illinois, Kentucky and Missouri because neither we nor our operating partnership holds the necessary license to hold those assets directly in such states. Gregory sells a 95% participation interest in the assets to our subsidiaries in exchange for 95% of the purchase price for the assets to be purchased by Gregory, which pays for the balance of such assets.

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The following table sets forth the years in which our mortgage loans were originated based upon UPB:
Mortgage Loan Origination at January 31, 2015

Years of Origination	Percentage of UPB
Prior to 1990	0.2%
1990 – 2000	1.7%
2001 – 2005	20.8%
2006 – 2008	70.9%
After 2008	6.4%

The following tables identify the mortgage loans by state, number of loans, loan value and collateral value and percentages thereof for the assets acquired through January 31, 2015:

Assets By State As of January 31, 2015

State	Loan Count	UPB (\$)	% of UPB	Collateral Value \$(1)	% of Collateral Value
FL	351	80,507,612	25.1%	73,289,865	22.1%
CA	142	47,815,884	14.9%	48,227,117	14.5%
NY	103	32,817,575	10.2%	41,312,200	12.4%
NJ	87	28,776,881	9.0%	27,665,667	8.3%
MD	68	18,465,277	5.8%	19,770,280	5.9%
IL*	65	13,252,973	4.1%	11,729,725	3.5%
AZ	44	10,584,787	3.3%	8,883,246	2.7%
MA	36	10,456,767	3.3%	11,141,000	3.4%
TX	79	8,237,280	2.6%	11,983,113	3.6%
GA*	54	7,779,863	2.4%	7,347,493	2.2%
VA	29	5,957,755	1.9%	6,469,082	1.9%
OR**	12	5,119,434	1.6%	6,475,514	1.9%
PA	61	5,103,269	1.6%	6,467,000	1.9%
OH	40	4,374,117	1.4%	4,728,718	1.4%
NC	31	3,336,576	1.0%	3,321,004	1.0%
MI	22	3,023,598	0.9%	3,263,460	1.0%
AL	14	3,005,780	0.9%	2,718,800	0.8%
WA	15	2,960,754	0.9%	3,033,500	0.9%
CT	10	2,695,290	0.8%	2,935,500	0.9%
NV	13	2,661,684	0.8%	2,028,500	0.6%
HI	8	2,337,741	0.7%	3,746,405	1.1%
CO	11	2,299,950	0.7%	2,584,900	0.8%
TN	20	2,025,106	0.6%	2,568,000	0.8%
SC	14	1,989,901	0.6%	1,883,000	0.6%

State	Loan Count	UPB (\$)	% of UPB	Collateral Value \$(1)	% of Collateral Value
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IN	17	1,732,363	0.5%	2,043,755	0.6%
WI	12	1,670,994	0.5%	1,790,500	0.5%
UT	9	1,556,551	0.5%	1,880,000	0.6%
MO*	12	1,444,478	0.4%	1,375,875	0.4%
DC	6	1,432,042	0.4%	2,677,000	0.8%
RI	6	1,175,727			