2026 INVESTOR PRIMER

Agency MBS REIT Primer

Structure · Mechanics · Risk Management · Valuation

~$9–10 Trillion	~$2.0 Trillion	5–8×	11–16%
Agency MBS Market Size	Fed Holdings (Early 2026)	Typical mREIT Debt/Equity	Sector Dividend Yield

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DISCLAIMER

1 REIT FUNDAMENTALS

How Agency mREITs make money — the levered carry strategy and the legal structure behind it

How an Agency mREIT Makes Money

An Agency mortgage REIT runs one of the oldest, most transparent strategies in finance: borrow short, lend long, and pocket the spread. The twist is scale. Using 5–8× debt-to-equity on government-guaranteed assets, a well-run Agency mREIT can turn a modest 0.75–1.25% net interest spread into a 10–16% return on equity — and pay the bulk of that out as dividends, generating sector dividend yields typically in the range of 11–16%. Understanding this engine is the foundation for everything else in this primer.

The Levered Carry Trade — A Worked Example

Consider a simplified Agency mREIT with $1 billion of equity capital. Here is how the economics work step by step:

Step	Description	Rate / Amount
1 · Raise equity	Shareholders contribute $1B of equity capital	$1,000,000,000
2 · Borrow via repo	Pledge MBS as collateral; borrow 8× equity overnight to 90-day repo	$8,000,000,000
3 · Total buying power	Equity + repo borrowings deployed into Agency MBS	$9,000,000,000
4 · Liquidity buffer	Cash + unencumbered MBS held as liquidity reserve (~5–8% of assets)	~$450–720M
5 · Investable assets	Net MBS portfolio after liquidity reserve	~$8.3–8.5B
6 · Asset yield	Diversified Agency MBS portfolio (30-yr fixed, mixed coupons) — blended yield net of premium amort.	~5.5–6.5% (illus.)
7 · Funding cost	Repo indexed to SOFR + credit spread (illustrative)	~3–4% (illus.)
8 · Gross spread	Asset yield minus funding cost before hedges	~2–3% (illus.)
9 · Hedge cost / income	Fixed-pay swaps ~75% of duration; net settlement positive when SOFR > fixed rate	~−0.5% to +0.5% (illus.)
10 · Net int. spread	Spread after hedge net settlement, before G&A	~1.0–2.5% (illus.)
11 · G&A / opex	Management fees, overhead (~0.25% of assets)	~−0.25% (illus.)
12 · Net spread on assets	Income generated per dollar of MBS owned	~0.75–2.25% (illus.)
13 · Return on equity	Net spread range × leverage (0.75–2.25% × 8×)	~6–18% base ROE (illus.)
14 · Dollar roll income	Off-balance-sheet TBA carry, adds incremental return	+1–3% (illus.)
15 · Total economic ROE	Distributable return on equity to shareholders	~10.5–17.5% (illus.)

> **THE LEVERAGE EFFECT**
>
> *Every additional turn of leverage amplifies both income and risk. At 8× leverage, a 1% underperformance in Agency MBS versus hedges reduces book value by ~8%. Conversely, a 1% outperformance adds ~8% to book value. This is why book value volatility — not default risk — is the defining characteristic of Agency mREIT investing. The MBS itself carries no meaningful credit risk; the risk is entirely in rate and spread movements magnified through leverage.*

The Role of Hedging

Without hedging, the mREIT is fully exposed to rising short-term rates: if SOFR rises sharply, funding costs rise while MBS coupons stay fixed, compressing net interest spread. The hedge — typically a portfolio of fixed-pay interest rate swaps — converts this floating-rate liability into something closer to a fixed cost. The mREIT pays a fixed rate on the swap and receives the floating SOFR rate. When short-term rates rise, the floating leg received on the swap increases alongside SOFR — generating more swap income — which offsets the higher repo funding cost on the MBS portfolio. The net effect is that rate risk on the liability side is substantially neutralized.

Hedging is never perfect. On NIM: the swap's net cash settlement moves with the yield curve — when SOFR exceeds the fixed rate paid, the swap adds to income; when below, it subtracts. On book value: swaps offset rate duration, so a parallel rate move leaves book value largely intact — but they cannot hedge spread risk. If MBS underperform hedges because spreads widen, that loss flows directly through to NAV. This is the central unhedgeable risk. Disciplined hedging dramatically narrows the range of outcomes; spread exposure is the risk investors are compensated to accept.

> **THE CORE PROFIT EQUATION**
>
> *Net Spread = Asset Yield − Funding Cost ± Swap Net Settlement. Return on Equity ≈ Net Spread × Leverage − G&A. Swap net settlement adds to or subtracts from NIM depending on the curve: positive when SOFR exceeds the fixed swap rate, negative when below. G&A costs consume approximately 0.25% of assets. The net result, multiplied by leverage (~8× in the worked example), drives distributable ROE of approximately 10.5–17.5% (illus.).*

Why the REIT Structure?

This levered carry strategy could in theory be run inside a bank or a hedge fund. The REIT structure exists for one reason: tax efficiency. A qualifying REIT pays no corporate income tax on income it distributes to shareholders. In other words, unlike a regular corporation, a REIT may take a deduction against its gross income for dividends it pays to its shareholders. For a strategy that generates most of its return as ordinary income — interest on MBS — this is enormously valuable. A C-corporation running the same strategy would face a roughly 21% federal tax drag before shareholders receive a dollar. The REIT pass-through eliminates that layer entirely.

The trade-off is the 90% distribution requirement. A REIT must pay out nearly all its taxable income each year, which limits retained earnings and means growth is generally funded through periodic equity issuance rather than reinvested profits. This creates a tight relationship between stock price and book value: an mREIT trading above book can issue accretive equity; one trading at a discount to book must shrink or hold still, or accept the dilution from the difference between the issuance price and book value. That said, issuing modestly below book can still be beneficial — a larger equity base spreads the fixed costs of running the mREIT across more shares, lowering the per-share G&A burden and potentially improving distributable earnings per share even as book value per share declines slightly.

LEVERAGE IN CONTEXT: MREITS VS. BANKS

A common misconception is that Agency mREIT leverage is unusually high by financial industry standards. In fact, large U.S. banks typically operate at 10–13× assets-to-equity leverage under Basel III capital frameworks — comparable to or higher than the 5–8× debt-to-equity range typical of Agency mREITs. The critical difference is asset quality and liquidity. Bank balance sheets contain loans, trading books, and off-balance-sheet exposures that carry credit risk and can be

illiquid. Agency mREIT balance sheets consist almost entirely of government-guaranteed MBS that trade OTC in one of the deepest and most liquid fixed income markets in the world — the TBA forward market. Because the MBS carries no meaningful credit risk, the leverage is a pure expression of rate and spread risk rather than default risk. This distinction matters: bank failures typically involve credit losses overwhelming thin capital; mREIT stress events typically involve spread widening or margin call spirals on fundamentally sound collateral.

A Brief History of Mortgage REITs

The mortgage REIT structure has roots in the broader REIT legislation passed by Congress in 1960, which allowed qualifying real estate investment trusts to pass income through to shareholders without corporate-level taxation. The early REIT universe was dominated by equity REITs owning physical properties, but the legislation was broad enough to encompass companies holding mortgage loans and mortgage-backed securities as their primary assets.

Mortgage REITs emerged in meaningful numbers during the 1970s and early 1980s, a period of high nominal interest rates and rapid growth in federally backed mortgage programs. The creation of Ginnie Mae (1968), Freddie Mac (1970), and the expansion of Fannie Mae's secondary market activities gave rise to a liquid, government-guaranteed MBS market that could be financed and held at scale. Capstead Mortgage Trust — trading under the ticker CMO — was established as a mortgage REIT in 1985 and is one of the early examples of a publicly traded vehicle specifically structured to hold mortgage assets and distribute income to shareholders under the REIT framework; it was subsequently acquired and no longer trades as an independent public company. The sector's early years were characterized more by whole-loan portfolios and CMO structures than by the plain-vanilla Agency MBS carry trade that defines it today.

The 1994 Fed tightening was an early stress test for leveraged mortgage finance. Levered mortgage investors were squeezed by rising funding costs, duration extension, and mortgage-market volatility, exposing weaknesses in interest-rate and liquidity risk management. Some mortgage REITs cut dividends and reshaped their balance sheets afterward. The episode helped underscore why disciplined hedging and funding management are essential in tightening cycles, a lesson that shaped the more sophisticated hedging frameworks used by today's sector leaders.

The 2008 financial crisis was a watershed for the sector. Stress in private-label MBS and the GSE conservatorships accelerated a concentration of the mREIT universe into Agency paper. The decade that followed was defined by Federal Reserve quantitative easing, historically low rates, wide Agency MBS spreads in the immediate post-crisis period, and eventually a prolonged compression of spreads as the Fed became the dominant Agency MBS buyer. New entrants flooded the sector during this period, raising capital at premiums to book value as investors chased double-digit dividend yields.

The 2022–2023 rate hiking cycle was the most recent test of the modern Agency mREIT model. The Fed raised rates sharply and rapidly — one of the fastest tightening cycles in modern history. Repo costs repriced almost immediately while MBS coupons stayed fixed, compressing net spreads; duration extension on legacy low-coupon pools amplified mark-to-market losses; and Agency MBS spreads widened simultaneously, leaving hedges that covered rate moves unable to offset the spread component. Book values across the sector declined substantially. The episode

was a reminder that the primary risks in Agency mREIT investing are rate, duration, and spread — not credit. Those with disciplined hedge books and adequate liquidity buffers preserved meaningful book value; the subsequent easing cycle beginning in late 2024 brought partial recovery.

> **WHY HISTORY MATTERS FOR MREIT INVESTORS**
>
> *The mREIT sector has now survived multiple Fed hiking cycles — 1994, 2004–2006, 2013 taper tantrum, 2018, and 2022–2023. Each episode has produced book value stress and dividend cuts at the most leveraged or least-hedged operators, while better-capitalized managers have recovered. The historical pattern reinforces a consistent lesson: hedge quality and balance sheet discipline determine who survives and who compounds over time.*

Mortgage REITs vs. Equity REITs

Agency mREITs occupy a small but distinctive corner of the broader REIT universe. The vast majority of REITs own physical properties — office buildings, apartments, data centers, warehouses. Agency mREITs own financial assets — agency guaranteed MBS. Their economics, risks, and valuation frameworks are almost entirely different:

Feature	Equity REIT	Agency mREIT
Primary Assets	Income-producing properties	Agency MBS (govt-guaranteed)
Revenue Driver	Rental income / occupancy	Net interest spread
Primary Risk	Vacancy / cap rate expansion	Rate / spread / prepayment
Leverage	Typically 30–50% LTV	5–8× debt-to-equity
Book Value	Periodic appraisals (slow)	Mark-to-market daily (volatile)
Valuation Anchor	NAV / cap rate	Price-to-book value (P/BV)
Dividend Sustainability	Driven by NOI stability	Driven by net spread + hedging
Market Cap Share	~96% of REIT universe	~4% of REIT universe

The Legal Framework

The economics described above are enabled — and constrained — by a specific legal structure. Understanding the rules helps explain why Agency mREITs behave the way they do: why they always pay large dividends, why leverage is so central to the model, and why the stock price tracks book value so closely.

Basic Requirements

To elect and maintain REIT status, a company must satisfy ongoing income, asset, distribution, and shareholder diversification tests. Failure to comply can result in loss of REIT status and significant retroactive tax liability.

INCOME TESTS

- 75% Gross Income Test: At least 75% of gross income must derive from certain real estate related sources (e.g., interest income from Agency MBS).
- 95% Gross Income Test: At least 95% of gross income must come from sources that qualify under the above-described 75% gross income test, as well dividends or interest.

ASSET TESTS

- 55% and 80% Tests (Investment Company Act of 1940 Exclusion): To qualify for the exclusion from the 1940 Act, without which leverage would be severely restricted — effectively eliminating the mREIT business model, an mREIT must invest at least 55% of its assets in qualifying real estate interests, including whole loans and whole pool Agency MBS, and at least 80% of its assets in qualifying real estate interests and other real estate related assets (i.e., partial pool securities such as CMOs and CMBS).
- 75% Asset Test: At least 75% of total assets must be qualified REIT assets — real estate, government securities (including Agency MBS), or cash. Agency MBS readily qualifies under this test.

DISTRIBUTION AND SHAREHOLDER REQUIREMENTS

- REIT must distribute at least 90% of annual taxable income to shareholders in the form of dividends. Income retained above this threshold is taxed at the REIT level. Practically, a REIT should distribute at least 100% to avoid entity level tax.
- Minimum of 100 shareholders required. No five or fewer shareholders may own more than 50% of shares (the 5/50 rule) during the last half of the year.
- Non-REIT activities must be conducted through a Taxable REIT Subsidiary (TRS), capped at 25% of gross REIT assets.

> **WHY THE RULES SHAPE THE STRATEGY**
>
> *The 90% distribution rule is why Agency mREITs' primary growth mechanism is issuing equity — they cannot retain a significant portion of earnings. The 55% and 80% qualifying asset tests are why they cannot diversify too far into non-mortgage assets. And the income test is why derivative hedges must be carefully structured to qualify as 'real estate' hedges. Every major strategic decision at an Agency mREIT runs through the REIT compliance lens first.*

2 THE AGENCY MBS MARKET

Government-backed mortgage finance — the foundational asset class

Understanding Agency MBS

Agency mortgage-backed securities are the central asset of the largest residential mortgage REITs. These securities are issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae. Their government backing eliminates credit risk, making them one of the world's most liquid fixed-income instruments and the bedrock of U.S. housing finance.

The Three Issuers

The three issuers do not carry identical guarantees — and the distinction matters. Ginnie Mae's backing is a direct, statutory obligation of the U.S. government. Fannie Mae's and Freddie Mac's backing is strong but legally different: it rests on a combination of conservatorship powers, Treasury credit agreements, and decades of policy statements rather than an explicit statutory promise.

GINNIE MAE · GOVERNMENT NATIONAL MORTGAGE ASSOCIATION · EXPLICIT U.S. GUARANTEE

Ginnie Mae is a U.S. government corporation housed within HUD — not a private company, not a GSE. Its MBS have carried the explicit full faith and credit guarantee of the United States since Ginnie Mae was created in 1968. This guarantee is statutory: it is written directly into law. If a Ginnie Mae MBS servicer fails to advance scheduled payments to investors, Ginnie Mae is responsible for ensuring investors receive their payments without disruption — it will step in, take over the pool, and continue making timely principal and interest payments. The primary responsibility for losses arising from borrower defaults, however, rests with the issuer of the securities, not Ginnie Mae directly. Ginnie Mae MBS are backed by FHA-insured, VA, and USDA loans, primarily serving first-time buyers, veterans, and lower-income households.

FANNIE MAE · FEDERAL NATIONAL MORTGAGE ASSOCIATION · IMPLICIT / CONSERVATORSHIP SUPPORT

Fannie Mae is a government-sponsored enterprise (GSE) — a privately chartered, shareholder-owned corporation that Congress created to support the secondary mortgage market. Critically, Fannie Mae's MBS have never carried an explicit statutory guarantee. Prior to 2008, markets assumed an implicit government backstop; that assumption was validated when the U.S. government placed Fannie Mae into FHFA conservatorship in September 2008 and simultaneously signed Preferred Stock Purchase Agreements (PSPAs) with Treasury, committing to provide unlimited capital support to keep Fannie solvent. Fannie has remained in conservatorship ever since. Its guarantee on MBS is now widely treated as equivalent to a U.S. government guarantee — but that equivalence rests on the conservatorship, the PSPAs, and consistent statements from successive Treasury Secretaries, not on statute. Should Fannie exit conservatorship without explicit congressional guarantee legislation, the implied backing could be legally and politically contested.

FREDDIE MAC · FEDERAL HOME LOAN MORTGAGE CORPORATION · IMPLICIT / CONSERVATORSHIP SUPPORT

Freddie Mac is a parallel GSE to Fannie Mae, with an identical mission and identical legal status. It entered FHFA conservatorship on the same day as Fannie Mae — September 6, 2008 — and its MBS carry the same implicitly-supported, conservatorship-dependent guarantee. As of early 2026, Freddie Mac has remained in conservatorship for over 17 years. Its Preferred Stock Purchase Agreement with Treasury has been amended multiple times to ensure continued access to government capital. Like Fannie, the market treats its MBS guarantee as equivalent to Treasuries, but that equivalence is a political and contractual construct, not a legal one.

Issuer	Guarantee Type	Legal Basis	Underlying Loans
Ginnie Mae (GNMA)	Explicit — full faith & credit of U.S.	Statutory (12 U.S.C. § 1721); written into law since 1968	FHA, VA, USDA
Fannie Mae (FNMA)	Implicit — conservatorship + PSPA support	FHFA conservatorship (Sep 2008) + Treasury PSPAs + policy commitments	Conforming conventional
Freddie Mac (FHLMC)	Implicit — conservatorship + PSPA support	FHFA conservatorship (Sep 2008) + Treasury PSPAs + policy commitments	Conforming conventional

WHY THE DISTINCTION MATTERS FOR MREIT INVESTORS

In practice, both Ginnie and GSE MBS trade at near-identical spreads to Treasuries — markets have priced the implicit GSE support as essentially equivalent to the explicit Ginnie guarantee. But the legal difference is not trivial. Any political shift that raises doubt about conservatorship continuation, explicit guarantee legislation, or PSPA renewal could widen Fannie/Freddie MBS spreads relative to Ginnie Mae, creating basis risk within Agency portfolios. Ginnie Mae's guarantee, by contrast, is simply not subject to political renegotiation — it is federal law.

Pass-Through Structure

In a pass-through, a pool of mortgage loans is deposited into a trust; investors receive a pro-rata share of all principal and interest payments, net of a servicing fee and guarantee fee (g-fee). Key structural terms:

- Coupon: Stated MBS interest rate = weighted average mortgage rate minus servicing and g-fees.
- WAC / WAM: Weighted Average Coupon and Maturity of loans in the pool.
- Prepayment: Unlike corporate bonds, MBS pass principal back as borrowers make payments or refinance — expressed as CPR (Conditional Prepayment Rate) or PSA speed.

The TBA Market

The To-Be-Announced market is the primary forward trading venue for Agency MBS with daily volumes regularly exceeding $200 billion. In a TBA trade, buyer and seller agree on issuer, coupon, maturity, settlement date, and price — but the specific pool is not identified until 48 hours before settlement. TBA trading enables efficient capital deployment and is the venue for dollar roll financing (see Section 3).

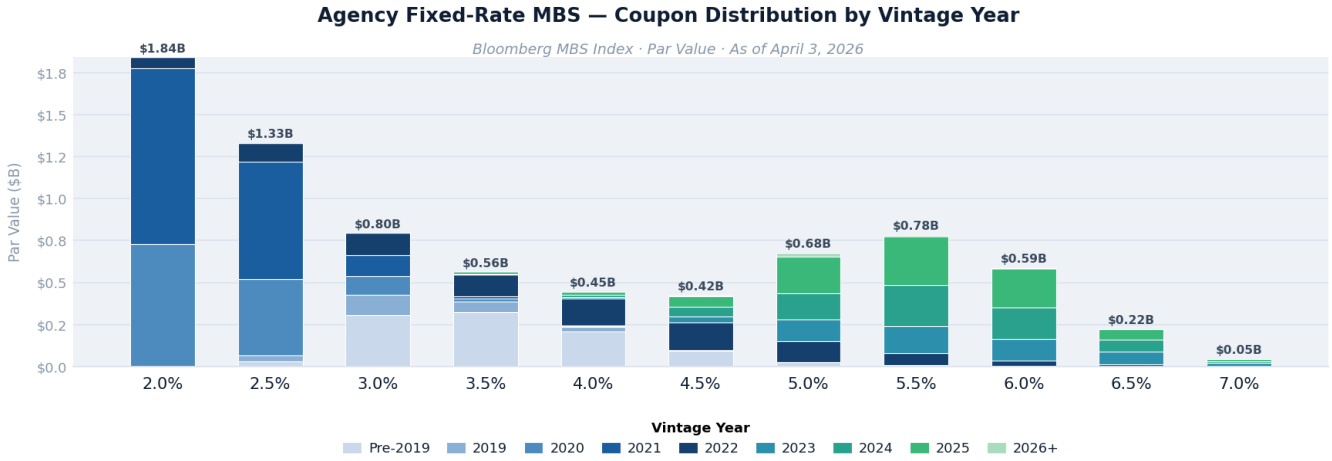
Specified Pools vs. TBA

While TBA allows generic trading of Agency MBS, investors also transact in "specified pools" — pools with known, desirable prepayment characteristics that trade at a premium (the "pay-up") over generic TBA. Common specified pool stories include: low loan balance (LLB), slower-

prepaying geographies, high-FICO borrowers, and investor loans. mREITs use specified pools to manage prepayment exposure and enhance portfolio yield.

Coupon Landscape: April 2026

Coupon Range	Origination Era	Prepay Speed	mREIT Implication
2.0%–3.5%	2020–2021	Slow	Duration extension; minimal premium amortization
3.5%–5.0%	2013–2019, late 2022	Moderate	Balanced; moderate risk if rates fall sharply
5.5%–7.0%+	2022–Present	Fast	Higher income; some prepay risk if rates normalize



Source: Bloomberg MBS Index (Par Val), as of April 3, 2026

The chart above maps the Agency fixed-rate universe by coupon bucket as of April 3, 2026, based on Bloomberg MBS Index composition — a broadly diversified index that is representative of the Agency MBS universe outstanding. Each bar is segmented by vintage year, showing which origination cohorts make up each coupon's outstanding balance. The concentration of the 2.0%–2.5% coupons in the 2020–2021 vintages (deep navy) is immediately visible: these mortgages are deeply out-of-the-money for refinancing at today's elevated rates, generating very slow prepayment speeds and highly stable, predictable cash flows for mREITs that hold them. Moving right across the coupon stack, the vintage composition shifts sharply — the 5.0%–7.0% coupons are almost entirely 2022–2025 origination (teal and green tones), reflecting the surge of high-rate lending that followed the Fed's 2022 tightening cycle. These pools carry genuine prepayment optionality: if mortgage rates decline materially, borrowers in higher-coupon pools will refinance rapidly, making specified pool selection and convexity management critical for managers holding them. The higher coupons generate meaningfully higher asset yields, and mREITs are generally willing to accept this elevated prepayment risk in exchange for the incremental income — provided it is actively managed through pool selection and hedging.

Agency CMBS

In addition to residential MBS, Fannie Mae, Freddie Mac, and Ginnie Mae also guarantee commercial mortgage-backed securities (CMBS). Agency CMBS share the same credit guarantee as residential Agency MBS but have materially different prepayment profiles: commercial loans typically carry prepayment penalties and yield maintenance provisions, providing contractual

protection against prepayment. Agency CMBS generally offer slightly wider spreads than equivalent residential MBS.

The US Housing & Mortgage Markets in Context

The following charts establish the macro context for Agency MBS investing — the secular decline and dramatic reversal of mortgage rates, the scale of the US housing market, where Agency MBS sits within the fixed income universe, and how the securitization share of US mortgage debt has evolved over two decades.

Chart 1 — 30-Year Fixed Mortgage Rate (2000–2026)

Source: Freddie Mac Primary Mortgage Market Survey (PMMS), via Bloomberg. Weekly observations, January 2000 through April 2, 2026. Record low of 2.65% reached January 7, 2021; cycle peak of 7.79% reached October 26, 2023. Long-run average (2000–2026) of 5.21% shown as dashed reference line.

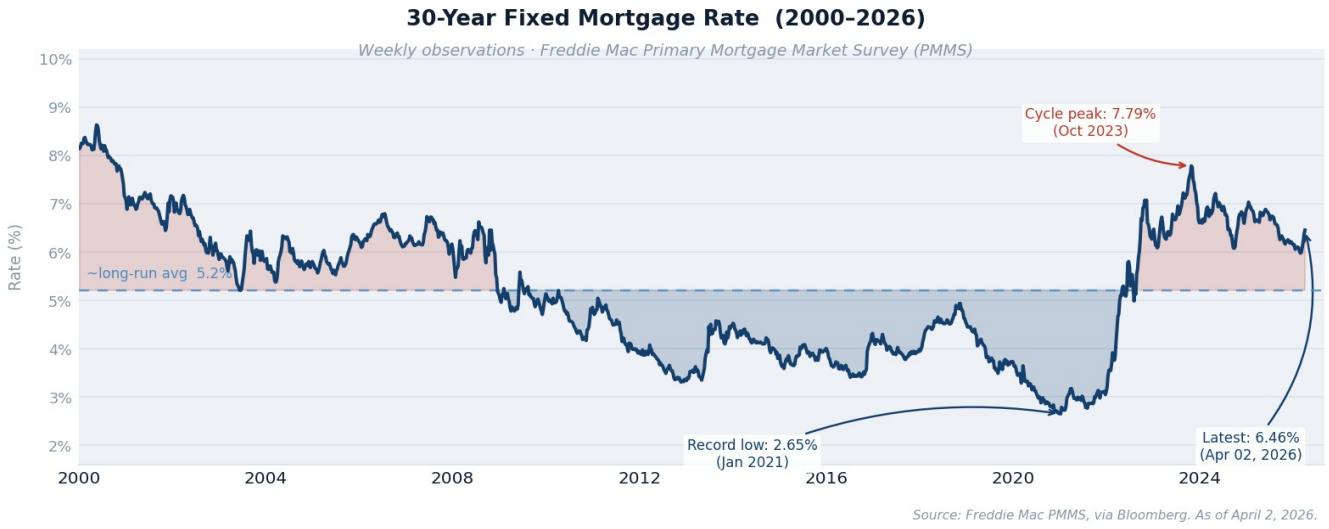
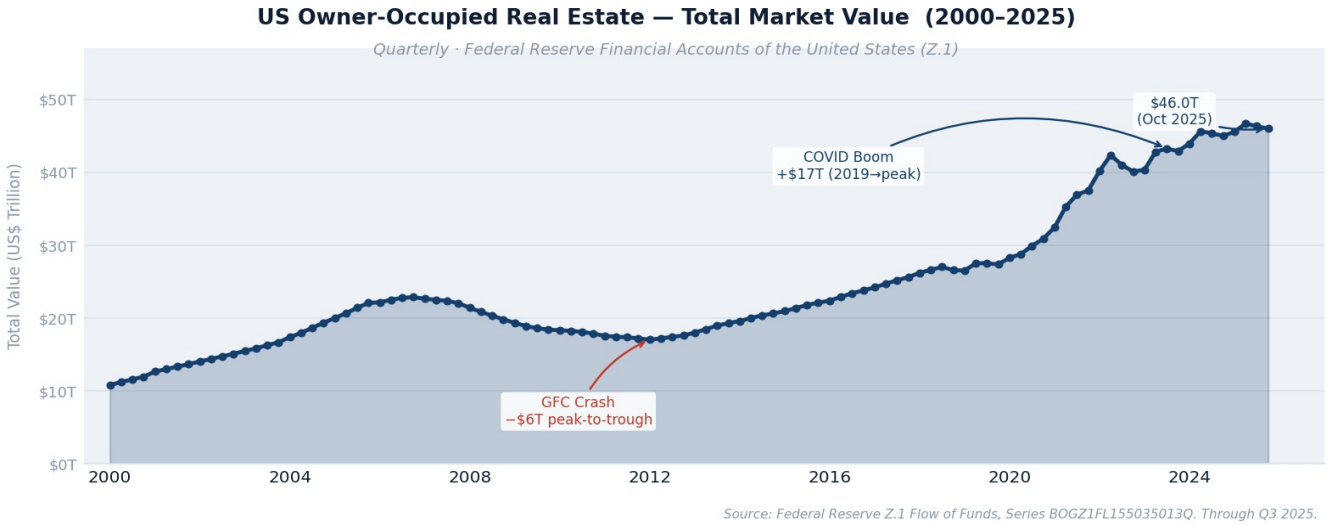


Chart 2 — US Owner-Occupied Real Estate — Total Market Value (2000–2025)

Source: Federal Reserve Financial Accounts of the United States (Z.1), Series BOGZ1FL155035013Q — Households; owner-occupied real estate at market value. Quarterly data through Q3 2025. GFC trough of $17.0T reached Q1 2012, down $5.8T from the pre-GFC peak of $22.9T (Q4 2006). The COVID-era surge added approximately $16.8T from the 2019 low to the mid-2023 peak of $43.3T. Latest reading: $46.0T as of Q3 2025.



Source: Federal Reserve Z.1 Flow of Funds, Series BOGZ1FL155035013Q. Through Q3 2025.

WHY HOUSING VALUE MATTERS FOR AGENCY MBS INVESTORS

The total value of US residential real estate is the foundation of the entire Agency MBS market. Every Agency MBS pool is backed by a pool of mortgages, and those mortgages are secured by homes. When housing values rise, loan-to-value ratios fall — meaning the credit quality of the underlying collateral improves. This matters most for Ginnie Mae MBS, which carry an explicit statutory guarantee, but it also strengthens the credit profile of Fannie and Freddie pools, whose guarantee rests on conservatorship support rather than statute. More importantly, rising home values drive housing turnover: homeowners with significant equity are more likely to move, triggering full loan payoff and accelerating MBS prepayments.

THE 2020–2022 SURGE AND ITS AFTERMATH

The surge in housing wealth between 2019 and mid-2023 was the direct consequence of pandemic-era low rates pulling demand forward — owner-occupied real estate rose approximately $16.8 trillion from the 2019 low to a peak of $43.3 trillion, according to Federal Reserve Z.1 data. As 30-year rates fell sharply, millions of households refinanced or purchased, generating massive Agency MBS issuance — the 2.5%–3.5% coupon stack visible in the coupon distribution chart. When rates then surged to 7%+ in 2022–2023, the market froze. Existing homeowners refused to sell — why trade a 3% mortgage for a 7% one? — and housing turnover collapsed to multi-decade lows. This directly suppressed prepayment speeds across the Agency MBS universe.

> **THE AFFORDABILITY CONSTRAINT**
>
> *US residential real estate is one of the largest asset classes in the world. For mREIT investors, the more relevant metric is affordability: with mortgage rates remaining elevated, monthly payments on a new purchase are at historically stretched levels relative to income. This constrains turnover, keeps prepayment speeds low on seasoned pools, and sustains the rate lock-in dynamic that defines current Agency MBS market structure. Verify current median home prices and mortgage rates against NAR, Freddie Mac PMMS, or equivalent sources.*

3 BUSINESS MODEL & DOLLAR ROLLS

The leveraged carry strategy, MBS owned, and off-balance sheet mechanics

How Agency MBS REITs Generate Returns

The Agency mREIT business model is a leveraged carry trade: borrow short at low rates (typically overnight to 90-day repo indexed to SOFR) at 5–8× equity, and invest long in Agency MBS at higher yields. The strategy amplifies the net spread with leverage, is scalable, and generates interest income that is deeply sensitive to the shape of the yield curve.

> **THE CORE PROFIT EQUATION**
>
> *Net Spread = Asset Yield − Funding Cost ± Swap Net Settlement. Return on Equity ≈ Net Spread × Leverage − G&A. Swap net settlement adds to or subtracts from NIM depending on the curve: positive when SOFR exceeds the fixed swap rate, negative when below. G&A costs consume approximately 0.25% of assets. The net result, multiplied by leverage (~8× in the worked example), drives distributable ROE of approximately 10.5–17.5% (illus.).*

Assets Owned

FIXED-RATE AGENCY MBS · 30-YEAR AND 15-YEAR

The dominant asset class for Agency mREITs. These pools offer exceptional TBA market liquidity and are universally accepted as high-quality repo collateral. The 30-year fixed-rate MBS is the benchmark coupon in the Agency market.

ARM MBS

Adjustable-rate mortgage pools that reset periodically against SOFR. ARM MBS have shorter effective duration than fixed-rate pools because their coupons reprice with market rates, requiring fewer interest rate hedges but earning lower yields in steep curve environments.

SPECIFIED POOLS

Agency MBS pools with known prepayment-advantageous characteristics (low loan balance, slower-prepaying geographies, high FICO borrowers). Investors pay a premium (‘pay-up’) over TBA for reduced prepayment volatility.

CMOS

Structured securities created from MBS pools, redistributing cash flows into tranches with distinct prepayment sensitivities. mREITs use CMO tranches to obtain specific duration or prepayment profiles unavailable in the TBA market. Two commonly used CMO derivatives deserve particular attention:

Interest-Only strips (IOs) receive only the interest cash flows from the underlying pool — no principal. Because their value depends entirely on the outstanding loan balance, IOs benefit when prepayments are slow (more balance remaining = more interest) and are hurt severely when prepayments accelerate. IOs exhibit positive duration, rising in value as rates increase and prepayments slow, making them a natural hedge against the extension risk embedded in fixed-rate MBS portfolios.

Principal-Only strips (POs) receive only the principal cash flows. POs are purchased at a discount to par and profit as principal is returned — faster is better for the PO investor. They are highly rate-sensitive: when rates fall and prepayments accelerate, POs appreciate sharply; when rates rise and prepayments slow, they extend and lose value. POs exhibit strong negative convexity.

Dollar Roll — Off-Balance Sheet Carry

The dollar roll is a synthetic repo transaction in the TBA market. An Agency mREIT sells an MBS pool for current-month TBA settlement and simultaneously commits to repurchase a substantially similar pool the following month at a slightly lower price. The price difference — the 'drop' — represents an implied financing rate (IFR). When the IFR is below the repo rate, the TBA is 'special' and the roll generates incremental income.

Feature	On-Balance Sheet (Repo)	Dollar Roll (TBA)
On balance sheet?	Yes — pooled MBS at fair value	No — off-balance sheet
GAAP income line	Interest income / cost of funds	Other income (derivative treatment)
Principal & interest received?	Yes	No
Leverage impact	Increases reported leverage	Off-balance; shown as 'implied leverage'
REIT income/asset test?	Qualified	Not qualified

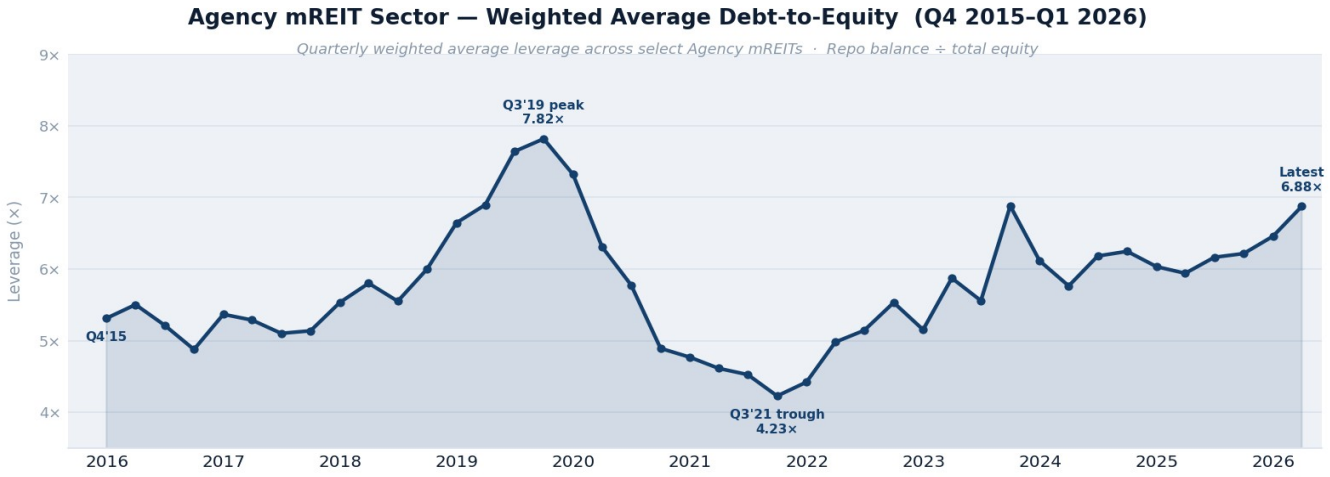
Note: Dollar roll income is classified as derivative income or loss under GAAP, which is reported separately from GAAP NII. However, distributable EPS includes dollar roll income and may be useful to management, analysts and investors.

Leverage

Agency mREIT balance sheets typically run at 5–8× debt-to-equity, reflecting the very low credit risk and correspondingly low repo haircuts (2–5%) on Agency MBS collateral. Two leverage measures matter:

- On-balance sheet leverage: GAAP debt / total equity. Reflects only repo-financed pooled MBS positions.
- Implied (economic) leverage: Incorporates off-balance sheet TBA/dollar roll positions. More complete measure of portfolio risk exposure.

Quarterly weighted average debt-to-equity ratio across select Agency mREITs, Q4 2015–Q1 2026. Calculated as repo balance divided by total equity, weighted by equity size, sourced from each company's 10-Q and 10-K filings. The series shows sector-level leverage trends over a full decade, including the pre-COVID build-up, the rapid de-levering through the 2020–2021 stress and recovery period, the rate-hike cycle compression, and the normalization through 2024–2026.



Source: Company quarterly filings (10-Q, 10-K). Leverage calculated as repo balance divided by total equity, weighted by equity size.

READING THE LEVERAGE CHART

The chart shows the weighted average debt-to-equity ratio for select Agency mREITs — repo balance divided by total equity — over a full decade. This is the number that determines how much book value moves for a given change in MBS prices relative to hedges. A leverage ratio of 6× means a 1% underperformance in Agency MBS versus hedges reduces book value per share by approximately 6%. Several distinct phases are visible across the ten-year window:

- Pre-COVID build-up and shock (2018–2020): Sector leverage rose steadily from ~5× in 2017 to a peak of 7.82× in Q3 2019 as managers extended balance sheets in the benign rate environment. The March 2020 COVID spread-widening event then forced rapid de-levering across the sector as MBS spreads blew out, triggering margin calls and emergency asset sales.
- Recovery trough and rate-hike rebuild (2021–2023): Average leverage bottomed at 4.23× in Q3 2021 as managers ran conservative balance sheets through the recovery, then rebuilt steadily as book values stabilized. The 2022–2023 rate hiking cycle saw further volatility, but average leverage remained well below the pre-COVID peak as managers prioritized balance sheet protection over income.
- Normalization (2024–2026): As the Fed eased and spreads stabilized, sector leverage settled into a stable 6–7× range, ending Q1 2026 at 6.88×. The current level remains below the late-2019 peak, reflecting the post-pandemic discipline now embedded in sector practice.

LEVERAGE IS THE RISK AMPLIFIER

Across the sector, weighted average debt-to-equity has ranged from a Q3 2021 trough of 4.23× to a Q3 2019 peak of 7.82× over the past decade, with the latest reading at 6.88×. The chart shows the sector building leverage through 2018–2019, de-levering sharply through the COVID shock and recovery period, and gradually rebuilding through 2022–2026. Leverage is the single most important risk amplifier in the Agency mREIT model — a 1% adverse move in MBS prices flows directly into book value at the full leverage multiple. Higher leverage is not inherently bad, but it demands more robust hedging, more conservative liquidity management, and a closer watch on repo counterparty concentration.

4 INTEREST RATE RISK & HEDGING

Spread risk, duration, negative convexity, prepayment, and the toolkit for managing rate exposure

The Defining Risk: Spread, Not Rate

The conventional framing — that interest rate risk is the defining risk of Agency MBS investing — is incomplete, and it leads investors to misunderstand what actually drives book value volatility at Agency mREITs. Rate risk, in isolation, is largely hedgeable. A well-constructed swap portfolio can neutralize most of the directional duration exposure in an MBS portfolio. What cannot be fully hedged is spread risk: the risk that Agency MBS prices decline (or rise) relative to the Treasury and swap rates that anchor the hedge book.

An Agency mREIT is, at its core, running a spread trade. It owns Agency MBS and is short Treasuries or swaps as hedges. The P&L of that position is driven not by where rates go in absolute terms, but by how MBS prices behave relative to the hedges. If rates rise 100 bps and MBS spreads stay constant, a well-hedged mREIT loses very little on book value — the hedge gains offset MBS price losses. But if rates rise 100 bps and Agency MBS spreads simultaneously widen 50 bps — as happened in 2022 — the hedge covers the rate move but nothing covers the spread widening. That 50 bps spread widening flows directly into book value losses, magnified by leverage.

What Is MBS Spread Risk?

The spread on Agency MBS is the excess yield investors demand above comparable-duration Treasuries (or above the swap rate) to hold MBS rather than a risk-free alternative. This spread compensates for three things: negative convexity (the prepayment option embedded in every mortgage), liquidity premium (Agency MBS are liquid but not as liquid as on-the-run Treasuries), and supply/demand dynamics (Fed QT, bank appetite, dealer inventory).

Crucially, this spread is not fixed. It widens and tightens based on macro conditions, Fed policy, and investor positioning — independently of the level of rates. Historically, Agency MBS current-coupon spreads have compressed sharply during QE periods and blown out significantly during market dislocations — the March 2020 COVID shock being a well-documented example of rapid widening. Even modest spread moves translate into meaningful book value changes when magnified by leverage.

THE HEDGE BASIS PROBLEM

Interest rate swaps hedge rate duration effectively — but they hedge against swap rates, not MBS prices. When MBS spreads widen, the swap hedge does not help: the mREIT loses on the MBS side but gains nothing extra on the swap. This gap between how MBS behave and how hedges behave is called basis risk — and it is precisely why Agency mREIT book values can fall even when an mREIT is ‘fully hedged’ on duration. The 2022 episode was instructive: the Fed’s aggressive hiking cycle caused both rates and MBS spreads to move adversely simultaneously. Rate hedges offset the rate move; nothing offset the spread widening.

Scenario	Rates	MBS Spreads	Hedge (Swap) P&L	Net Book Value Impact
Rate rise, spreads stable	+100 bps	Unchanged	Large gain on swap	Near-neutral (well-hedged); some convexity drag from duration extension
Rate rise + spread widening	+100 bps	+50 bps wider	Gain on swap (rate only)	Meaningful loss (spread unhedged); convexity drag compounds extension
Rate fall, spreads stable	−100 bps	Unchanged	Large loss on swap	Near-neutral on rate move; convexity losses from premium amortization acceleration reduce gain
Rate fall + spread tightening	−100 bps	−40 bps tighter	Loss on swap (rate only)	Meaningful gain from spread tightening, partially offset by convexity losses on premium pools
Rates flat, spreads widen	Unchanged	+50 bps wider	Minimal P&L	Significant loss (pure spread risk); no convexity impact

THE CORE INSIGHT

An mREIT that is perfectly duration-hedged still has full exposure to spread risk. This is why Agency MBS spreads — not rate levels — are the primary variable that investors should monitor when assessing mREIT book value stability. Wide spreads mean cheap entry prices and higher forward returns; narrow spreads mean premium valuations and lower cushion against volatility. Investors should track current spread levels against long-run historical averages using Bloomberg (US MBS Index OAS) or equivalent sources.

The Rate Risk Toolkit

Agency mREIT portfolios are exposed to multiple forms of interest rate risk simultaneously. A well-hedged manager attempts to neutralize duration exposure while accepting spread risk and managing prepayment risk through portfolio construction.

Risk Type	Source	Hedge Instrument	Residual Exposure
Duration risk	Fixed-rate MBS has long duration vs. short-term funding	Interest rate swaps (fixed-pay); U.S. Treasury futures; cash Treasury shorts	Basis risk between MBS and swap/Treasury rates
Prepayment risk	Borrower refinancing or home sales return principal early	Specified pools, CMO tranches, portfolio diversification	Residual model risk
Convexity risk	Negative convexity means asymmetric duration response	Swaptions, interest rate caps	Costly to hedge fully
Funding / basis risk	Repo rate ≠ swap rate (SOFR vs. other benchmarks)	Careful hedge tenor matching	Some mismatch unavoidable

Interest Rate Swaps — The Primary Hedge

The most common hedge instrument is the fixed-pay interest rate swap. The mREIT pays a fixed rate and receives floating SOFR. When rates rise, the floating leg received increases, generating swap income that offsets higher repo costs. The hedge reduces, but does not eliminate, net interest margin compression in rising-rate environments.

A critical distinction: swaps hedge rate duration, not spread. If Agency MBS spreads widen at the same time rates rise, the swap gains offset the rate component of the price decline but nothing

offsets the spread component. This spread-versus-rate basis is the central unhedgeable risk in Agency mREIT investing.

SWAP NET SETTLEMENT AND NIM

The net periodic settlement on fixed-pay swaps is included in distributable earnings as a cash income item. When SOFR exceeds the fixed swap rate (as it did through 2022–2024), the mREIT receives net positive swap cash flows each period, cushioning repo cost increases. When SOFR is below the fixed rate (as in 2020–2021), the mREIT pays net, reducing distributable NIM. This is why the yield curve shape — and where SOFR sits relative to swap rates — matters so much to reported earnings.

Other Hedge Instruments

Instrument	Primary Use	Directional Exposure	Notes
Fixed-pay interest rate swaps	Duration hedging — ~75% of portfolio duration targeted	Short rates (pay fixed, receive SOFR)	NIM impact depends on curve: additive when SOFR > fixed rate; slight drag when SOFR < fixed rate
U.S. Treasury Futures	Duration / convexity management	Short (hedges rising rates)	P&L treated as capital item — excluded from distributable EPS
Swaptions	Tail-risk protection against convexity in sharp rate moves	Receiver swaptions protect against sharp rate falls; payer for sharp rises	Premium cost; used selectively

Duration and Negative Convexity

Duration measures price sensitivity to a 1% change in yield — a 5-year duration security falls roughly 5% for a 1% rate rise. Agency MBS have negative convexity: their duration changes in an asymmetric, unfavorable way. When rates rise, prepayments slow and MBS duration extends — exactly when the investor wants less duration to limit losses. When rates fall, prepayments accelerate and duration shortens — exactly when the investor wants more duration to benefit from the rally. This asymmetry explains why Agency MBS carry a spread premium over comparable-duration Treasuries, and why continuous, active hedging is essential to the model.

Negative Convexity and the Premium Price Problem

Negative convexity is the defining structural risk of Agency MBS investing, and it becomes most consequential when a pool trades at a premium — above par. Understanding why prepayments hurt premium-priced MBS, while being effectively neutral on discount-priced MBS, is essential to understanding how mREITs think about portfolio construction across the coupon stack.

PRICE, PAR, AND WHY IT MATTERS

When a mortgage pool is originated, its coupon is set close to prevailing market rates and it typically trades near par (100 cents on the dollar). But as rates move, the price of that pool moves too. If market rates fall below the pool's coupon, the pool becomes valuable — investors will pay above par to own the higher income stream. A 6.5% pool in a 5.5% rate environment might trade at 103 or 104. This premium reflects the present value of the above-market income stream.

Here is where the borrower's prepayment option becomes a problem. When a borrower refinances, the investor receives par — $1,000 per $1,000 of face value — regardless of what they

paid. If an mREIT purchased that 6.5% pool at 103, and the borrower refinances, the mREIT gets back 100. The $3 of premium paid is gone immediately, recognized as a write-off against income. This is premium amortization — the gradual erosion of above-par price back to 100 as the pool ages — and when prepayments accelerate, that erosion happens faster than originally modeled.

NEGATIVE CONVEXITY: THE ASYMMETRIC TRAP

Convexity describes how a bond's duration (price sensitivity) changes as interest rates move. Positive convexity, as in a Treasury bond, is investor-friendly: when rates fall, duration extends and the price appreciates more than linearly; when rates rise, duration shortens and price falls less than linearly. Agency MBS have the opposite property — negative convexity — because the borrower holds a prepayment option that they exercise in exactly the wrong circumstances for the investor:

- Rates fall: Borrowers refinance. The mREIT receives par on loans for which it paid a premium, unamortized premium is written off, reinvestment happens at lower yields, and the portfolio's duration shrinks precisely when the investor wanted duration to capture the rate rally. Prices appreciate less than a comparable Treasury.
- Rates rise: Borrowers do not refinance. The mREIT is stuck holding the pool far longer than expected as prepayments collapse. Duration extends, amplifying price losses. The portfolio behaves more like a long-duration bond precisely when the investor does not want that exposure.

In both scenarios, the MBS performs worse than a Treasury of comparable initial duration. This asymmetry — giving up upside when rates rally, suffering extra downside when rates rise — is what 'negative convexity' means in practice.

HOW THE COUPON STACK MAPS TO CONVEXITY RISK

Coupon / Price	Rate Environment	Prepayment Behavior	Convexity Exposure
Low coupon (2.5–4.0%) · Discount	Rates well above coupon	Very slow — no refi incentive	Minimal negative convexity; primary risk is extension if rates rise further
Current coupon (5.5–6.0%) · Near par	Rates near coupon level	Highly sensitive — small rate move triggers refi wave	Maximum negative convexity; refi option most at-the-money — a modest rate rally is all it takes
High coupon (6.5–7.0%+) · Premium	Rates below coupon	Already fast; market has priced in prepayment	Elevated but partially priced; premium write-off risk if refi accelerates beyond expectations

This table explains why mREITs holding today's large high-coupon stack cannot simply enjoy the elevated coupons passively. They are implicitly short a call option — the borrower's right to refinance — and the cost of that option is priced into both the initial purchase premium and the ongoing risk of accelerated amortization if rates normalize. The closer current mortgage rates get to the coupon level of the pool, the more that option comes into the money.

HOW MREITS MANAGE IT

The primary defenses against negative convexity in a premium-coupon portfolio are: specified pools (which carry contractually slower prepayment profiles and command pay-up pricing), active coupon selection — rotating toward lower coupons or current-coupon TBA when premium amortization risk rises — and, in some cases, swaptions as tail-risk protection against sharp rate

moves. None of these fully neutralizes negative convexity; they reduce and rebalance it. The residual risk is what investors are compensated for through the spread premium Agency MBS carries over comparable-duration Treasuries.

> **WHY THIS MATTERS FOR MREIT INVESTORS**
>
> *Negative convexity means that Agency MBS portfolios are most vulnerable not when credit deteriorates — that risk doesn't exist — but when rates fall sharply from a high-coupon environment. A meaningful rate rally would trigger widespread refinancing of the high-coupon stack, forcing premium write-offs across the sector. mREITs respond primarily through specified pool selection and coupon management; some also use swaptions as a discretionary tail-risk hedge.*

Prepayment Risk

Prepayment is the defining structural risk of Agency MBS. When borrowers pay principal early — by refinancing or selling their home — the MBS investor receives principal back sooner than expected. For mREITs holding premium-price MBS (purchased above par), faster prepayments mean accelerated amortization of that premium, reducing yield. For discount-price MBS, faster prepayments are beneficial.

Prepayment speed is measured in CPR — Conditional Prepayment Rate, the annualized percentage of the outstanding pool balance that prepays in a given month. Key drivers include: the refinancing incentive (gap between market rates and loan coupon), housing turnover (home sales), and loan characteristics (age, geography, loan balance, borrower credit).

Prepayment Concept	Description
CPR	Conditional Prepayment Rate — annualized prepayment speed as % of pool balance
Burnout	Phenomenon where surviving pool borrowers are less refinance-sensitive after a prior wave
Extension risk	MBS duration extends as rates rise and prepayments slow
Contraction risk	MBS duration shortens when rates fall and prepayments accelerate
S-curve	Non-linear relationship between refinancing incentive and prepayment speed

5 FUNDING & LIQUIDITY

Repo mechanics, haircuts, margin calls, and managing structural short-funding risk

Funding Structure and Liquidity Risk

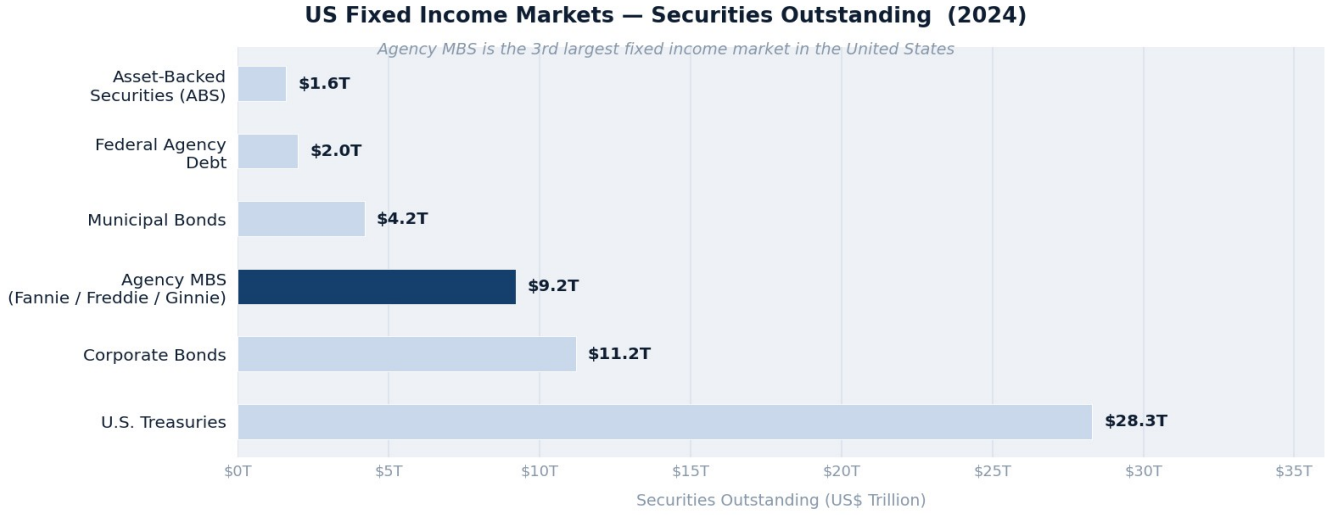
Funding risk is the most acute near-term danger for Agency mREITs. Unlike banks — which hold FDIC-insured deposits and access Fed liquidity facilities — mREITs are entirely dependent on capital markets funding. The structural mismatch between long-duration assets and short-dated repo creates a vulnerability requiring constant, disciplined liquidity management.

Repurchase Agreements — The Liability Engine

Repurchase agreements (repo) represent 85–95% of Agency mREIT borrowings. In a repo transaction, the mREIT transfers Agency MBS to a dealer counterparty and receives cash against it. At an agreed future date — typically overnight, though term repo of 30–90 days is also used — the dealer returns the securities and the mREIT repays the cash plus interest. That interest rate, effectively the cost of borrowing, is indexed to SOFR plus a credit spread. The collateral never leaves the mREIT's economic exposure — it retains all price risk and income — but the dealer holds legal title until the repo matures.

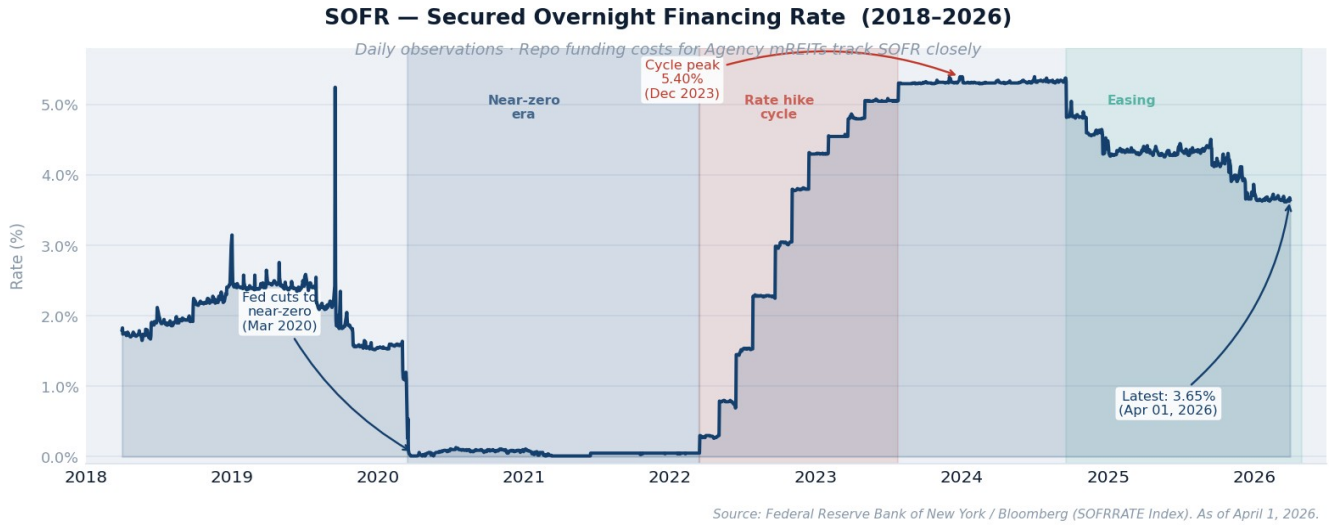
A key reason repo financing works so well for Agency mREIT strategies is the depth and liquidity of the collateral itself. With approximately $9.2 trillion in securities outstanding as of 2024 (Federal Reserve / eMBS), Agency MBS is the third-largest fixed income market in the US — behind U.S. Treasuries ($28.3T) and Corporate Bonds ($11.2T) — making it universally accepted, tightly priced, and easily valued by repo counterparties.

Sources: SIFMA Fixed Income Market Structure Compendium (2024); SIFMA Research Quarterly: Fixed Income Outstanding (3Q24); Federal Reserve / eMBS for Agency MBS. U.S. Treasuries as of 4Q24 ($28.3T); Corporate Bonds ($11.2T), Municipal Bonds ($4.2T), and Federal Agency Debt ($2.0T) as of 3Q24; Agency MBS ($9.2T) as of 3Q24 per Federal Reserve Flow of Funds and eMBS loan-level data.



SOFR — The Benchmark for mREIT Repo Financing

SOFR daily rate (FRBNY / Bloomberg, SOFRRATE Index). Shaded regions mark the near-zero rate era (2020–2022), the Fed hiking cycle (2022–2023), and the easing cycle starting in late 2024. Agency mREIT repo funding costs track SOFR plus a thin credit spread.



Source: Federal Reserve Bank of New York / Bloomberg (SOFRRATE Index). Daily observations, April 2018 through April 1, 2026. Cycle peak of 5.40% reached December 2023; latest reading 3.65% as of April 1, 2026.

SOFR — the Secured Overnight Financing Rate — is the benchmark that anchors virtually all Agency mREIT repo financing. It replaced LIBOR as the primary overnight reference rate in 2022 and is calculated daily by the Federal Reserve Bank of New York based on actual overnight Treasury-collateralized repo transactions, making it a direct and transparent reflection of the cost of short-term secured borrowing in the U.S. market. Because Agency mREIT repurchase agreements are typically priced at SOFR plus a thin credit spread of 5–15 basis points, the SOFR trajectory shown above is, in effect, the trajectory of mREIT funding costs over the same period. The near-zero SOFR environment of 2020–2022 compressed funding costs to near nothing, enabling historically wide net interest margins even on low-coupon MBS; the 2022–2023 hiking cycle drove SOFR from essentially zero to 5.30%–5.40%, rapidly compressing spreads and squeezing book values across the sector; and the easing cycle beginning in late 2024 has partially reversed that pressure, restoring carry. SOFR's trajectory is, in this sense, the single most important macroeconomic variable for mREIT earnings from quarter to quarter.

Repo Mechanics

Concept	Definition / Significance
Overnight repo	Matures the next business day — must be rolled daily; lowest cost but maximum rollover exposure
Term repo (30–90 day)	Locks in funding cost for the term — reduces rollover risk; typically slightly higher rate
Repo haircut	% of collateral value the lender will not advance. Agency MBS: typically 2–5% (reflects near-zero credit risk)
GCF Repo	General Collateral Finance Repo — cleared through FICC; used by affiliated broker-dealers to access standardized, centrally cleared funding
Bilateral repo	Negotiated directly between mREIT and dealer bank; rate and terms vary by counterparty relationship
Triparty repo	Cleared via a custodial triparty agent; provides standardized collateral management and valuation

Rollover Risk

Because most repo matures overnight or within 90 days, mREITs must continuously refinance their borrowings in the open market. Rollover risk is the danger that dealers reduce capacity, raise haircuts, or withdraw from the market entirely during a stress event — forcing the mREIT to sell assets at depressed prices to repay maturing repo. The March 2020 COVID shock demonstrated this vividly: Agency MBS spreads widened sharply in weeks, triggering margin calls

and forced de-leveraging across the sector. Counterparty diversification, staggered maturities, and maintaining an unencumbered liquidity buffer are the primary structural defenses.

Margin Calls

Repo collateral is marked to market daily. If Agency MBS prices fall, counterparties demand additional collateral — margin calls. The March 2020 COVID shock was a vivid demonstration: spreads widened sharply, forcing rapid sector-wide de-leveraging. See the capital preservation discussion in §6 for a fuller treatment of why liquidity management is the primary defense.

Liquidity Management

- Unencumbered assets: Cash + unencumbered MBS (typically 5–8% of assets) are the primary defense against margin calls. This buffer determines survival in a stress event.
- Repo ladder: Staggered maturities to prevent simultaneous rollover of all borrowings. Maturity concentration is a red flag.
- Counterparty diversification: Limit concentration to any single dealer bank.
- Affiliated broker-dealers: Several large Agency mREITs operate FINRA/FICC-member affiliated dealer subsidiaries, providing stable, potentially preferential repo access and direct FICC GCF Repo membership.

Equity Issuance Dynamics

Because Agency mREITs must distribute 90%+ of taxable income, the portion of earnings available for retention is small — insufficient on its own to fund meaningful portfolio growth. Retained earnings can contribute incrementally to book value, but new equity issuance is the primary capital formation mechanism. Issuance at a premium to book value is accretive — it raises book value per share by acquiring a dollar of assets for more than a dollar of equity. Issuance at a discount can still be economically beneficial if the larger asset base spreads G&A more efficiently, but it dilutes existing shareholders on a book-value-per-share basis.

PREMIUM P/BV RISK

Investors who buy Agency mREIT shares at a significant premium to book value face a structural risk: if the premium compresses back to par or below — as happened across the sector in 2022 — they suffer both the book value decline and the multiple compression simultaneously. Entry price relative to book value is therefore one of the most important considerations in Agency mREIT investing.

Preferred Stock in the mREIT Capital Structure

Many Agency mREITs issue preferred stock as a layer of permanent, non-repo capital. Preferred shares sit senior to common equity but junior to debt, paying a fixed cumulative dividend that does not fluctuate with SOFR or the yield curve. Preferred stock is not subject to margin calls and does not need to be rolled over like repo. Its fixed cost of capital is accretive to common equity when the portfolio ROE exceeds the preferred dividend rate.

WHY MREITS ISSUE PREFERRED STOCK

From a management perspective, preferred stock serves several functions. First, it provides stable, non-repo capital that does not carry margin call risk — unlike repo financing, preferred equity cannot be withdrawn by a counterparty in a stress event. This makes it a genuine source of permanent capital that supports balance sheet stability. Second, preferred dividends are fixed (or fixed-to-floating after a call date), so management can predict the cost of this capital layer with precision, unlike repo funding costs which fluctuate with SOFR. Third, preferred issuance is typically accretive to common shareholders when the cost of preferred capital is below the blended ROE being generated on the portfolio — the company earns more on the assets funded by preferred capital than it pays out in preferred dividends, with the residual accruing to common equity.

Preferred stock issuances by Agency mREITs are typically structured as fixed-rate cumulative perpetual preferred shares, with a par value of $25 (the standard for exchange-listed preferred) and a fixed dividend rate set at issuance. Most series carry a call option exercisable by the company after five years — the ‘non-call 5’ structure that is standard in the sector. After the call date, many modern series convert to a floating rate tied to SOFR plus a spread, providing the investor some protection against a rising rate environment as the dividend adjusts upward with rates. Cumulative means that if the company suspends the preferred dividend — which requires also suspending the common dividend under REIT distribution rules — the unpaid dividends accumulate and must be paid in full before any common dividend can resume.

PREFERRED VS. COMMON: THE KEY DISTINCTION

Preferred stock is a senior fixed claim on earnings and assets. In a stress event, preferred dividends can be suspended if earnings are insufficient — but preferred holders rank ahead of common in any liquidation scenario. For investors, preferred offers a bond-like income stream with credit risk tied to the operational health of the mREIT rather than the credit quality of the Agency MBS (which carries government guarantees). Duration risk is significant: fixed-rate preferreds decline in price when rates rise, even when the underlying Agency portfolio is hedged.

6 VALUATION METRICS

Price-to-book, total return, distributable earnings, and economic return

The Analytical Framework

Agency mREITs require a distinct analytical framework from equity REITs, industrial companies, or banks. The focus is on book value, income relative to equity, and total return to shareholders.

Dividend Yield — and Why It's Incomplete

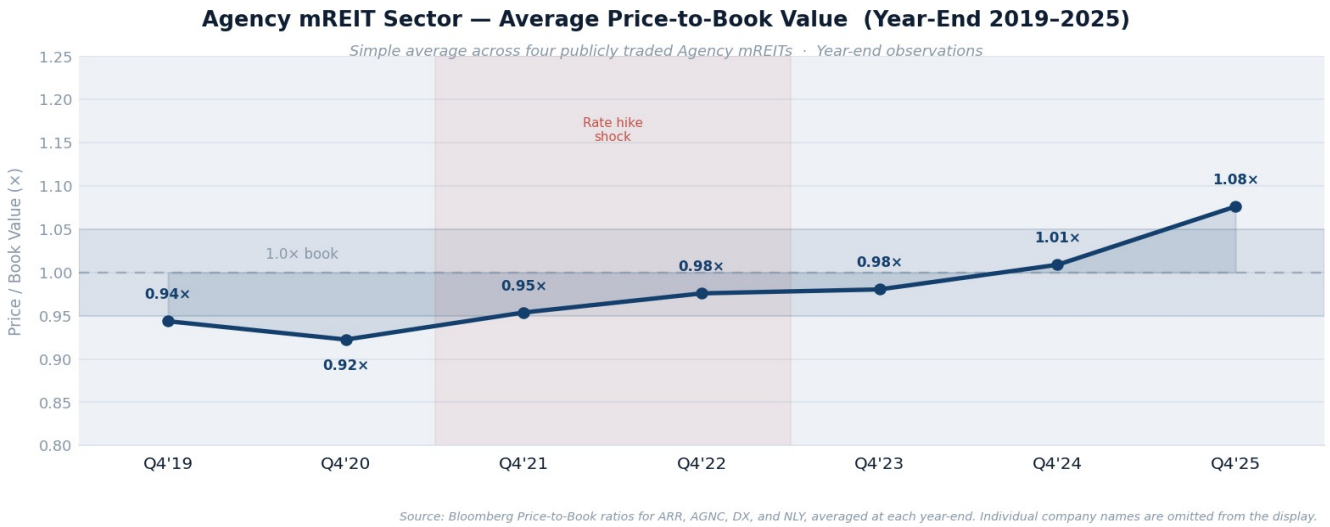
Dividend yield is the number that attracts most retail investors to Agency mREITs — and for good reason. Dividend yields in the sector typically range from 11–16%, and the monthly payment cadence suits income-oriented portfolios. But dividend yield alone is an incomplete and potentially misleading measure of investment performance. A 15% yield that is accompanied by a 15% decline in book value per share produces a total return of approximately zero. The investor collected income but suffered an equivalent capital loss.

Total return is the only complete measure of what a shareholder actually earns. It has two components: the income return (dividends received) and the capital return (change in book value per share, which ultimately drives share price). A well-run Agency mREIT that protects book value while paying a sustainable dividend compounds shareholder wealth over time. A poorly managed one that pays high dividends while steadily eroding book value is, in effect, returning the investor's own capital to them in the form of income — and eventually cutting the dividend when the capital base can no longer support it.

Price-to-Book Value (P/BV)

Book value per share — total assets minus total liabilities, divided by shares outstanding — is the primary valuation anchor for Agency mREITs. In theory, Agency MBS is marked to market daily, meaning book value should reflect the current fair value of the portfolio net of all liabilities at any given moment. In practice, however, mREITs typically report book value only once per quarter in their earnings releases. Intra-quarter estimates are necessarily model-driven, relying on price indices, spread proxies, and assumed hedge offsets rather than actual portfolio marks. Buying at 1.0× book means acquiring a dollar of market-valued assets for a dollar. A premium above 1.0× reflects market confidence in future earnings; a discount reflects skepticism or stress.

> **WHY BOOK VALUE IS THE ANCHOR**
>
> *Unlike equity REITs whose intrinsic value depends on cap rates, Agency mREIT book values are in principle objectively marked to market. However, investors should recognise that reported book value is a quarterly snapshot — intra-quarter book estimates are model-based and carry meaningful uncertainty, particularly during periods of rapid spread or rate movement. The key analytical question: at what ROE will management run those assets, and what is the risk the book itself erodes?*



Simple average Price-to-Book Value across four publicly traded Agency mREITs — ARR, AGNC, DX, and NLY — at year-end observations from 2019 through 2025. Source: Bloomberg Price-to-Book ratios at each year-end. Individual company names are omitted from the display.

Capital Preservation — Why It Matters

Book value in an Agency mREIT is marked to market daily, making it inherently volatile in ways that equity REIT book values — appraised periodically — are not. The management challenge is not to eliminate that volatility but to ensure the hedging framework is robust enough that adverse rate and spread moves do not cause permanent impairment.

Permanent impairment occurs when a manager is forced to sell assets at depressed prices — typically because margin calls on a declining portfolio exhaust the liquidity buffer. A temporary mark-to-market decline that reverses as spreads normalize is manageable. A forced liquidation at the trough is not. This distinction explains why liquidity management and unencumbered asset buffers receive so much attention from experienced mREIT analysts: the question is not just whether book value is stable today, but whether the balance sheet can withstand a sustained stress without triggering a spiral of forced selling.

Economic Return — The Unified Metric

ECONOMIC RETURN FORMULA

Economic Return = (Dividends Per Share Paid + Change in Book Value Per Share) ÷ Beginning Book Value Per Share. Note: this is a NAV-based metric — it measures intrinsic value created relative to book, not stock price performance. Total shareholder return (TSR) uses stock price rather than book value and captures multiple re-rating as well. All company-specific figures should be verified directly against SEC filings and earnings releases before use.

Economic return is the metric that best captures the total return framework in practice. It explicitly combines the income component (dividends paid) and the capital component (book value change) into a single measure. A positive economic return means shareholders were made wealthier in aggregate — even if some of that return came from book value appreciation rather than income. A negative economic return means the capital loss exceeded the dividend income for the period, regardless of how high the headline yield appeared.

Tracking economic return across multiple periods and across the rate cycle is the most reliable way to assess management quality. Managers who consistently post positive economic returns across both rising and falling rate environments — protecting book value in stress and growing it during recoveries — have demonstrated the disciplined hedging and liquidity management that compounds shareholder wealth. Managers who post strong income metrics but allow book value to drift lower over time are consuming capital, and the dividend is eventually at risk.

Distributable Earnings

GAAP net income fluctuates, potentially significantly, due to unrealized mark-to-market swings on MBS and derivatives, making it less useful for dividend coverage analysis. Distributable EPS strips out these non-cash items to show the underlying cash-generating capacity of the portfolio. Key adjustments include excluding unrealized gains/losses on MBS, and derivatives from distributable earnings.

WHY DISTRIBUTABLE EARNINGS IS USEFUL

Distributable EPS is the relevant starting point for dividend coverage analysis because it reflects actual cash the company can distribute without drawing down capital. A payout ratio below 100% — dividends paid divided by distributable EPS — means the dividend is covered by earnings. A sustained payout ratio above 110% is a warning signal: the company may be funding part of the dividend by returning capital rather than earning it. For an income-oriented investor evaluating whether the current dividend is sustainable, distributable EPS is the most relevant metric available.

WHERE DISTRIBUTABLE EARNINGS FALLS SHORT

The critical limitation of distributable earnings is that it entirely excludes changes in book value. A company can post strong distributable EPS while its net asset value per share is declining — because MBS spreads widened, because the hedge book wasn’t adequate, or because premium amortization is accelerating faster than modeled. In that scenario, the investor is collecting income with one hand while losing capital with the other. Distributable earnings tells you nothing about this erosion.

A second, more structural limitation is that distributable earnings is fundamentally a cost-based metric. Asset yields and hedge costs are largely locked in at the time of purchase or trade execution and amortized over time — they reflect what the portfolio was earning and paying when positions were entered, not what the current market environment offers. In a period of rapidly changing rates or spreads, this backward-looking cost basis can diverge significantly from forward-looking economic reality. An mREIT may report stable distributable EPS while its reinvestment yield on new capital has fallen sharply, or conversely, understate its true earnings power as legacy low-yield assets roll off and are replaced at higher current rates.

A third limitation is that distributable earnings definitions are not standardized across companies. Each management team makes its own adjustments, and the line between genuine non-cash exclusions and items management would prefer not to highlight can blur. Investors should read the reconciliation footnotes carefully rather than relying on the headline figure.

WHY TOTAL ECONOMIC RETURN IS THE SUPERIOR METRIC

Total economic return — (dividends paid + change in book value per share) ÷ beginning book value — is superior to distributable earnings precisely because it captures both dimensions of shareholder value creation. A manager earning 15% distributable ROE while book value erodes 10% annually is delivering a 5% total return, not 15%. A manager earning 10% distributable ROE while growing book value 3% is delivering a 13% total return. Distributable earnings is an important input into understanding the income component, but it cannot substitute for the complete picture that economic return provides.

The practical implication: use distributable EPS to assess whether the current dividend is covered and sustainable. Use total economic return — measured over multiple periods and through at least one rate cycle — to assess whether management is actually compounding shareholder wealth. The two metrics together tell the full story; neither alone is sufficient.

TOTAL ECONOMIC RETURN VS. TOTAL SHAREHOLDER RETURN

It is important to distinguish total economic return from total shareholder return (TSR). They measure different things. Total economic return is a company-reported, NAV-based metric: it measures what happened to the intrinsic value of the investment — book value per share plus dividends received — relative to beginning book value. It reflects management's actual performance in running the portfolio.

Total shareholder return, by contrast, is a market-based metric: stock price appreciation plus dividends, divided by beginning stock price. TSR captures not only the change in book value but also the change in how the market values that book — the P/BV multiple re-rating. An mREIT can post a strong total economic return while delivering a weak TSR if the market re-rates the stock from a premium to a discount. Conversely, a company with modest economic return can generate strong TSR if investor sentiment pushes the multiple higher.

For assessing management quality and portfolio performance, total economic return is the cleaner metric because it strips out the noise of sentiment-driven multiple expansion or contraction. For measuring actual wealth created or destroyed as a stockholder — including the impact of buying at a premium or selling at a discount — TSR is the complete measure. Both are useful; they answer different questions.

Valuation Reference Table

Metric	Definition	Typical Range
Price-to-Book	Stock price / book value per share	0.85× – 1.20×
Dividend Yield	Annual dividend / stock price	10% – 16%
Payout Ratio (Distributable)	Dividend / distributable EPS	90% – 110%
Net Interest Spread	Asset yield minus funding cost	0.5% – 1.5%
Net Interest Margin	Net interest income / avg. earning assets	1.5% – 3.0%
Economic Return	(Div + ΔBook) / beginning book	8% – 15% annualized

HOW TO USE THIS TABLE IN PRACTICE

These metrics are best used together rather than in isolation. The dividend yield tells you the income return at the current price, but sustainability depends on payout ratio vs. distributable EPS and — ultimately — on whether book value is stable. A high yield with a payout ratio above 110% or a declining book value trend warrants closer scrutiny before drawing conclusions.

THE ANALYST'S CHECKLIST

Work through metrics in order: (1) What has total return (economic return) been across the last full rate cycle — not just the last quarter? This is the single most important question. (2) Is book value stable or growing — check the trend in book value per share. (3) Is the dividend covered — check payout ratio vs. distributable EPS. (4) Is the price attractive relative to book value. (5) Is net interest spread widening or compressing. Only after working through all five does the current dividend yield become a meaningful signal rather than a potential trap.

7 FED, QT & MACRO BACKDROP

Quantitative tightening, GSE reform risk, and the spread environment in early 2026

The Macro Environment: 2025 Update

The interest rate and monetary policy landscape has undergone the most dramatic shift in four decades. Understanding the trajectory of this cycle is essential to assessing Agency mREIT prospects heading into 2026.

The Tightening Cycle: 2022–2023

Beginning in March 2022, the Fed raised the federal funds rate from near-zero to 5.25–5.50% — 525 basis points in 18 months. The impact on Agency mREIT balance sheets was severe:

- Agency MBS prices declined sharply; book value per share fell 20–40% across major Agency mREITs through 2022.
- Repo funding costs surged from ~0.10% in early 2022 to ~5.40% by mid-2023, dramatically compressing net interest spreads.
- MBS duration extended as prepayment speeds collapsed — borrowers with 2.5–3.0% coupons had zero refinancing incentive.
- Dollar roll specialness declined as the Fed's dominant MBS buying presence was replaced by QT-driven run-off.

Quantitative Tightening

The Fed purchased large quantities of Agency MBS during COVID-era QE (2020–2022), at peak holding a substantial share of the entire Agency MBS market. In June 2022 the Fed began QT, allowing MBS to roll off rather than reinvesting principal. As of early 2026, QT continues at a reduced pace — the monthly runoff cap on MBS has been lowered but not eliminated. Verify current Fed MBS holdings and the status of QT against the Federal Reserve's H.4.1 statistical release and FOMC statements.

QT RUNNING BEHIND SCHEDULE

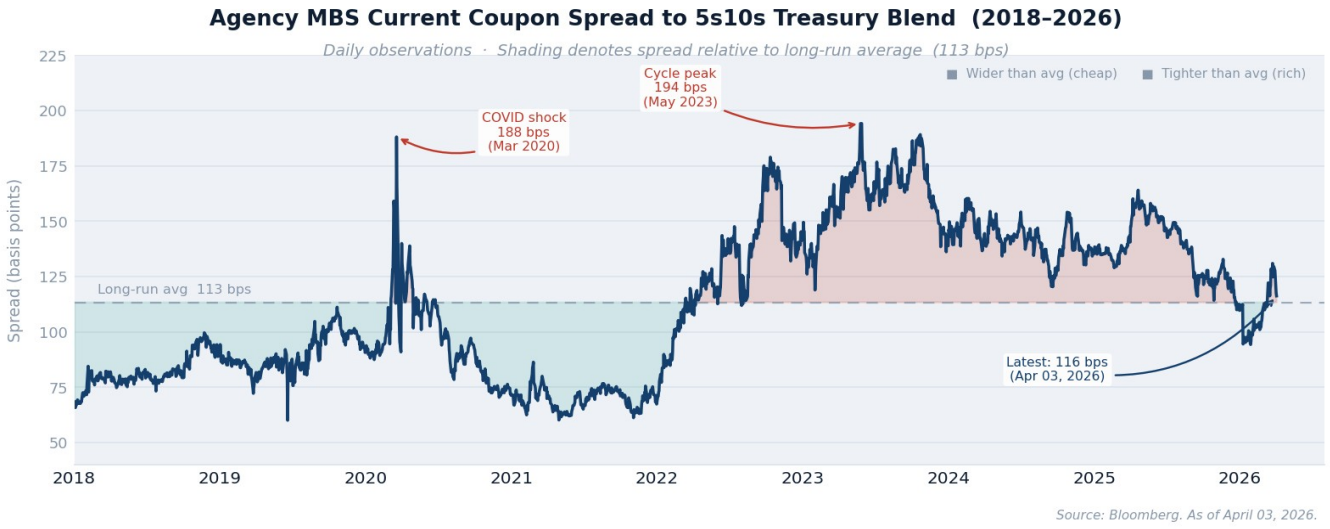
The Fed's MBS holdings have run off more slowly than originally projected — with mortgage rates elevated, refinancing is sluggish, generating slow principal paydown on the Fed's mostly low-coupon 2020–2021 portfolio. The Fed continues to passively convert its MBS portfolio into Treasuries by reinvesting incoming mortgage payments — not adding to Agency MBS demand. All figures should be verified against the Federal Reserve's H.4.1 statistical release.

The Easing Cycle: 2024–2025

The Fed pivoted to cuts in September 2024. By end-2025 the fed funds target had been reduced meaningfully from its cycle peak, partially restoring carry for mREITs. Lower repo costs have improved net interest spreads and Agency MBS price appreciation has supported book value recovery. Verify the current fed funds target and total cuts against the Federal Reserve's FOMC statements.

Mortgage Spreads: Wide by Historical Standards

Despite Fed easing, Agency MBS current-coupon spreads to the 5s10s Treasury blend have remained historically elevated. The spread reached a COVID shock peak of 188 bps in March 2020 before compressing to a cycle trough of 60 bps in mid-2019. The 2022–2023 rate hiking cycle drove spreads to a cycle peak of 194 bps (May 2023) — the widest in the series — as reduced Fed demand, lean bank portfolios, and elevated rate volatility combined to cheapen the sector. As of April 3, 2026, the spread stands at 116 bps, essentially at the long-run average of 113 bps. Wide spreads generate higher asset yields on new investments and offer potential book value appreciation if spreads tighten toward historical norms; at current levels the sector is pricing near fair value relative to history.



Agency MBS current-coupon spread to the 5s10s Treasury blend (2018–2026). Daily observations sourced from Bloomberg. COVID shock peak of 188 bps reached March 19, 2020; cycle peak of 194 bps reached May 26, 2023; latest reading 116 bps as of April 3, 2026. Long-run average 113 bps over the full series. Red shading indicates periods where spread is wider than the long-run average (sector trading cheap); teal shading indicates tighter-than-average periods (rich).

The Federal Reserve and Agency MBS

The Federal Reserve accumulated approximately $2.7 trillion of Agency MBS during its quantitative easing programs (QE1 through QE4), making it the single largest holder of Agency MBS in the world at the peak. Beginning in 2022, the Fed shifted to passive quantitative tightening (QT) — allowing maturing MBS to run off its balance sheet without reinvestment up to a monthly cap. As of early 2026, the Fed's Agency MBS portfolio has declined to approximately $2 trillion, with runoff continuing at a reduced pace.

The significance for Agency mREITs: the Fed was not merely a large buyer during QE — it was a price-insensitive buyer that compressed Agency MBS spreads by absorbing supply that would otherwise have had to clear through the private market at wider levels. QT reverses this dynamic: as the Fed's portfolio runs off, the private market must absorb more Agency MBS supply. This is a structural headwind for Agency MBS spreads, though it is partially offset by other technical factors.

GSE Reform

Fannie Mae and Freddie Mac remain in FHFA conservatorship after 17+ years. GSE reform discussions resurface periodically without resolution. The market continues to treat Agency MBS as effectively credit risk-free. Any material change to the guarantee structure could widen MBS spreads and reduce book values; investors should monitor FHFA commentary and legislative activity.

GSES AS ACTIVE MBS BUYERS: GROWING RETAINED PORTFOLIOS

A notable development in recent years is that Fannie Mae and Freddie Mac have been growing their own retained MBS portfolios — purchasing Agency MBS and holding them on balance sheet rather than simply passing them through to third-party investors. This represents a shift from the post-GFC decade, when GSE retained portfolios were subject to strict FHFA-mandated caps and were in steady runoff. Restrictions on retained portfolio size under the PSPAs were amended in early 2025, removing prior caps. There is public reporting and disclosure from FHFA and the GSEs themselves that retained portfolios have grown as a result, though the precise investment pace and composition should be verified against Fannie Mae and Freddie Mac's quarterly financial disclosures and FHFA reports.

The potential significance for Agency MBS investors is that growing GSE retained portfolios represent incremental demand for Agency MBS — the GSEs competing for the same pool of supply that mREITs and other investors seek. Whether this demand has been material enough to meaningfully influence spread levels is a more difficult question to answer from public data alone. It is plausible that GSE buying has provided some technical support, particularly in the context of the Fed's passive QT reducing what was historically the largest buyer. But the causal inference — that GSE purchasing explains spread resilience — requires firmer quantitative evidence than is readily available from public sources. Investors interested in this dynamic should monitor FHFA disclosures, GSE quarterly filings, and commentary from Agency MBS dealers and research providers who track retained portfolio investment activity directly.

8 KEY PLAYERS

Annaly (NLY), AGNC Investment (AGNC), ARMOUR Residential (ARR), and Dynex Capital (DX)

The Agency MBS REIT Universe

The following table summarizes key facts for the four primary publicly traded Agency mREITs. All figures should be verified against each company's most recent SEC filings, earnings releases, and investor supplements. Market cap, dividend yield, and leverage figures are as of or near December 31, 2025 where available.

Metric	NLY	AGNC	ARR	DX
Exchange / Ticker	NYSE: NLY	NASDAQ: AGNC	NYSE: ARR	NYSE: DX
Market Cap (approx.)	~$15.3B	~$11.8B	~$2.1B	~$2.6B
Management Structure	Internally managed	Internally managed	Externally managed (ACM LP)	Internally managed
Portfolio Size (est.)	~$105B	~$95B	~$20B	~$20B
Implied / Economic Leverage (12/31/25)	5.6× economic (per 10-K)	7.2× "at risk" (per Q4 release)	8.07× implied (per Q4 release)	7.3× incl. TBAs (per Q4 release)
Dividend Yield (12/31/25)	~12.5%	~13.4%	~16.3%	~14.6%
MSR Hedge	Yes	No	No	No
Affiliated Broker-Dealer	RCap Securities (FINRA/FICC)	Bethesda Securities/BES (FINRA/FICC)	BUCKLER Securities LLC (FINRA/FICC)	None
Preferred Stock (% of Total Equity)	~12%	~16%	~8%	~4%
Headquarters	New York, NY	Bethesda, MD	Vero Beach, FL	Glen Allen, VA

Note: Each company reports leverage using different definitions. NLY reports 'economic leverage' which nets out residential credit and MSR exposures from the denominator, producing a lower ratio than peers; AGNC reports 'at risk' leverage on tangible equity including net TBA positions; ARR reports both on-balance-sheet debt-to-equity (7.94×) and implied leverage including TBAs (8.07×); DX reports leverage including TBA securities at cost divided by total shareholders' equity. These differences make direct cross-company leverage comparisons unreliable without adjusting to a common methodology. Verify all figures against each company's most recent earnings release and 10-K filings.

All figures are estimates or sourced from public earnings releases. Verify all metrics against each company's most recent 10-K, 10-Q, earnings supplement, and investor presentations before use. ARR Q4 2025 figures sourced from ARMOUR's public earnings release and 10-K annual report. Market capitalizations sourced from WallStreetZen (NLY, ARR; as of April 2, 2026), AAII (AGNC; as of March 17, 2026), and StockAnalysis (DX; as of early April 2026). Dividend yields sourced from Bloomberg as of December 31, 2025. Market caps are approximate and fluctuate daily with share price.

9 INVESTOR CONSIDERATIONS

Risk factors, earnings analysis framework, and glossary

Investor Considerations

Why Consider Agency MBS REITs?

- High current income: 11–16% dividend yields with monthly payment cadence.
- Credit safety: Government-guaranteed assets eliminate credit risk — a distinctive profile vs. corporate bonds or non-Agency credit.
- Spread optionality: Agency MBS OAS has remained historically wide. Spread tightening could drive book value appreciation and total return upside.
- Liquidity: The major Agency mREITs are highly liquid NYSE/NASDAQ-listed equities.

Key Risks

Risk	Severity	Description
Agency MBS Spread Widening	High	Spreads widening vs. Treasuries reduces book value directly — not covered by rate hedges. The primary P&L risk in normal markets.
Funding / Repo Shock	High	Dealer haircut increases or refusal to roll repo forces asset sales into a falling market. Monitor counterparty diversification and unencumbered asset buffers.
Dividend Sustainability	Medium	High yields attract income investors who may not stress-test coverage. Monitor distributable EPS vs. dividend quarterly.
Premium P/BV Entry Risk	Medium	Buying above book value creates double compression risk: BV falls AND stock re-rates to discount.
GSE Reform / Guarantee Risk	Low	Any structural change to the Agency guarantee would likely widen spreads and reduce book values.

THE ANALYST'S CHECKLIST

Work through metrics in order: (1) What has total return (economic return) been across the last full rate cycle — not just the last quarter? This is the single most important question. (2) Is book value stable or growing — check the trend in book value per share. (3) Is the dividend covered — check payout ratio vs. distributable EPS. (4) Is the price attractive relative to book value. (5) Is net interest spread widening or compressing. Only after working through all five does the current dividend yield become a meaningful signal rather than a potential trap.

Glossary of Terms

Term	Definition
Agency MBS	Mortgage-backed securities issued / guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae
Book Value Per Share	(Total assets − total liabilities) ÷ shares outstanding. Primary NAV metric for mREITs.
Convexity	Rate of change of duration with respect to yield. Negative for MBS: BV rises less / falls more than a linear rate model predicts.
CPR	Conditional Prepayment Rate. Annualized % of pool that prepays in a given month.
Distributable EPS	Non-GAAP earnings measure excluding unrealized marks, reclassifying dollar roll income as NII equivalent.
Dollar Roll	Synthetic repo transaction using TBA forward sales and forward repurchase commitments. Roll income = price 'drop'. Also referred to as TBA Drop Income in company 10-K filings (e.g., ARMOUR); the two terms describe the same economic concept.
Duration	Sensitivity of a security's price to a 1% change in interest rates. Measured in years; a 5-year duration security falls approximately 5% in price for a 1% rise in rates.
Economic Return	(Dividends paid + change in BV) ÷ beginning BV. Company-reported NAV-based total return metric.
FHFA	Federal Housing Finance Agency. Conservator and regulator of Fannie Mae and Freddie Mac.
G&A (General & Administrative)	Operating expenses of the mREIT excluding interest costs — primarily management fees (for externally managed vehicles), compensation, legal, audit, and overhead. Typically ~0.20–0.30% of assets annually; deducted before calculating net spread on assets.
GCF Repo	General Collateral Finance Repo. Cleared through FICC; used by affiliated broker-dealers.
GSE	Government-Sponsored Enterprise. Fannie Mae and Freddie Mac; conservatorship since 2008.
Haircut	% of collateral value lender will not advance. Agency MBS: typically 2–5%.
Implied Leverage	Economic leverage including TBA / dollar roll off-balance sheet exposure. More complete than GAAP leverage.
MSR	Mortgage Servicing Right. Right to service a mortgage portfolio; behaves like an IO strip with positive rate convexity.
Net Interest Margin (NIM)	Non-GAAP financial measure used to evaluate performance, as it reflects the impact of hedging activities, and is calculated as net economic interest income (i.e., GAAP interest income plus TBA roll income, less GAAP interest expense adjusted for the net interest from hedging instruments) divided by the average balance of interest-earning assets. NIM is broader than NIS as it captures the full portfolio yield net of funding costs and expresses it as a percentage of assets, incorporating the effect of leverage. Typical range for Agency mREITs: 1.5–3.0%.
Net Interest Spread (NIS)	Non-GAAP financial measure used to evaluate performance, as it reflects the impact of hedging activities. It represents the difference between asset yield and blended funding cost, and is calculated as the difference between: 1. economic interest income (i.e., GAAP interest income plus TBA roll income) divided by the average balance of interest-earning assets, and 2. economic interest expense (i.e., GAAP interest expense adjusted for the net interest from hedging instruments such as interest rate swaps and futures contracts) divided by the average balance of interest-bearing liabilities.
OAS	Option-Adjusted Spread. The spread of an MBS over a benchmark rate — typically Treasuries or the swap curve — after adjusting for the value of the embedded prepayment option. OAS isolates the compensation investors receive for credit, liquidity, and structural risk, net of optionality.
P/BV	Price-to-Book Value. Stock price ÷ book value per share. Primary valuation metric.
Prepayment	Early return of principal by borrower. Driven by refinancing incentive and housing turnover.
PSPA	Preferred Stock Purchase Agreement. Treasury commitment to support GSEs; basis for treating Agency MBS as effectively govt-guaranteed.
QT	Quantitative Tightening. Fed allowing MBS (and Treasuries) to roll off its balance sheet without reinvestment.
Repo	Repurchase Agreement. Short-term collateralized borrowing; primary funding tool for Agency mREITs.
SOFR	Secured Overnight Financing Rate. Risk-free overnight rate; benchmark for repo funding costs.
TBA	To-Be-Announced. Forward market for Agency MBS; most liquid fixed income market after Treasuries.
Total Shareholder Return	Market-based return: stock price change + dividends ÷ beginning stock price. Captures

(TSR)	P/BV re-rating.
Unencumbered Assets / Liquidity Buffer	Cash and Agency MBS not pledged as repo collateral. The primary defense against margin calls — if repo counterparties demand additional collateral or refuse to roll funding, the mREIT must meet obligations from this pool. Typically sized at 5–8% of total assets; insufficient buffers are a key risk indicator in stress scenarios.