

ANWORTH MORTGAGE ASSET CORP

Form DEF 14A

March 28, 2012

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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by Registrant ☒ x

Filed by a Party other than the Registrant ☐ "

Check the appropriate box:

☐ " Preliminary Proxy Statement

☐ " **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

☒ x Definitive Proxy Statement

☐ " Definitive Additional Materials

☐ " Soliciting Material Under Rule 14a-12

ANWORTH MORTGAGE ASSET CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ x No fee required.

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.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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March 26, 2012

Dear Stockholder:

Our Annual Meeting of Stockholders (the "Annual Meeting") will be held at the principal offices of our company located at 1299 Ocean Avenue, Second Floor, Santa Monica, California, at 10:00 a.m. on Wednesday, May 23, 2012. The formal meeting notice and our proxy statement for the Annual Meeting are attached.

At this year's meeting, stockholders will be asked to consider and vote upon several proposals, including proposals to: (1) elect six directors to serve as members of our board of directors; (2) provide an advisory vote to approve the compensation of our Named Executive Officers; and (3) ratify the appointment of McGladrey and Pullen, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.

Whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the meeting. Therefore, I urge you to vote your shares of common stock by phone, via the Internet or by marking, signing, dating and promptly returning the enclosed proxy card in the enclosed postage-paid envelope. This will ensure your representation at the Annual Meeting.

We look forward to seeing you on May 23, 2012.

Sincerely,

Lloyd McAdams
Chairman and Chief Executive Officer

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ANWORTH MORTGAGE ASSET CORPORATION

1299 Ocean Avenue, Second Floor

Santa Monica, California 90401

(310) 255-4493

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 23, 2012

TO OUR STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the "Annual Meeting") of Anworth Mortgage Asset Corporation, a Maryland corporation, will be held on Wednesday, May 23, 2012 at 10:00 a.m. at our principal offices located at 1299 Ocean Avenue, Second Floor, Santa Monica, California 90401 for the following purposes:

1. To elect six directors to serve as members of our board of directors for the ensuing year or until their successors are duly elected and qualified;
 2. To provide an advisory vote to approve the compensation of our Named Executive Officers;
 3. To ratify the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012; and
 4. To transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.
- Our board recommends that you vote **FOR** the six nominees for election to our board and **FOR** proposals No. 2 and 3. Stockholders of record at the close of business on March 26, 2012 are entitled to vote at the Annual Meeting or any adjournment or postponement thereof.

All stockholders are cordially invited to attend the Annual Meeting in person. To ensure your representation at the Annual Meeting, you are urged to vote your shares of common stock by phone, via the Internet or by marking, signing, dating and returning the enclosed proxy card promptly in the postage-paid envelope enclosed for that purpose. Any stockholder attending the Annual Meeting may vote in person even if he or she previously submitted a proxy. If your shares of common stock are held by a bank, broker or other agent, please follow the instructions from your bank, broker or other agent to have your shares voted.

Sincerely,

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Thad M. Brown
Secretary

Santa Monica, California

March 26, 2012

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on May 23, 2012:

This proxy statement and our Annual Report on Form 10-K are available on the internet, free of charge, at <http://www.RRDEZProxy.com/2012/AnworthEZProxy>. On this web site, you will be able to access this proxy statement, our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and any amendments or supplements to the foregoing material that is required to be furnished to stockholders.

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ANWORTH MORTGAGE ASSET CORPORATION

1299 Ocean Avenue, Second Floor

Santa Monica, California 90401

(310) 255-4493

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 23, 2012

INFORMATION ABOUT THE ANNUAL MEETING

This proxy statement is being furnished to stockholders in connection with the solicitation of proxies by and on behalf of our board of Anworth Mortgage Asset Corporation, or our board, for use at our 2012 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Wednesday, May 23, 2012 at the principal offices of our company located at 1299 Ocean Avenue, Second Floor, Santa Monica, California 90401, or at any adjournment or postponement thereof.

What is the purpose of the Annual Meeting?

At the Annual Meeting, stockholders will consider and vote upon the following matters:

The election of six directors to our board of directors;

An advisory vote to approve the compensation of our Named Executive Officers;

The ratification of the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012; and

Such other matters as may properly come before the Annual Meeting or any adjournments or postponements thereof.

We sent you these proxy materials because our board is requesting that you allow your shares to be represented at the Annual Meeting by the proxy-holders named in the enclosed proxy card. This proxy statement contains information that we are required to provide you under the rules of the U.S. Securities and Exchange Commission, or SEC, and is designed to provide you with information to assist you in voting your shares. On or about April 9, 2012, we will begin mailing these proxy materials to all stockholders of record at the close of business on March 26, 2012.

How does our board recommend that I vote on the proposals?

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If no instructions are indicated on your valid proxy, the proxy-holders will vote in accordance with the recommendations of our board. Our board recommends a vote:

FOR each of the nominees for director listed in this proxy statement;

FOR the approval, on an advisory basis, of the compensation of our Named Executive Officers; and

FOR the ratification of McGladrey & Pullen, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.

With respect to any other matter that properly comes before the meeting or any adjournment or postponement thereof, the proxy-holders will vote as recommended by our board, or if no recommendation is given, in their own discretion.

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Who is entitled to vote at the Annual Meeting?

Holders of record of our common stock at the close of business on March 26, 2012 are entitled to vote at the Annual Meeting. As of March 26, 2012, there were 136,072,545 shares of our common stock issued and outstanding. Stockholders are entitled to cast one vote per share on each matter presented for consideration and action at the Annual Meeting.

How can I vote my shares?

Your vote is important. Stockholders can vote in person at the Annual Meeting or by proxy. If you vote by proxy, the individuals named on the proxy card as representatives will vote your shares in the manner you indicate. You may specify whether your shares should be voted for or against all, some or none of the nominees for director, or you may abstain from voting with respect to all, some or none of the nominees for director, and whether your shares should be voted for or against, or you may abstain from voting on, the following proposals: the advisory vote to approve the compensation of our Named Executive Officers and the ratification of the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012. You may vote your shares of common stock by any of the following methods:

By Telephone or the Internet Stockholders can vote their shares via telephone or the internet as instructed on the proxy card. The telephone and internet voting procedures are designed to authenticate a stockholder's identity, allow stockholders to vote their shares and confirm that their instructions have been properly recorded.

By Mail Stockholders who receive a paper proxy card or request a paper proxy card by telephone or the internet may elect to vote by mail and should complete, sign and date their proxy cards and mail them in the pre-addressed envelopes that accompany the delivery of paper proxy cards. Proxy cards submitted by mail must be mailed by the date shown on the proxy card or the deadline imposed by your bank, broker or other agent for your shares to be voted.

In Person Shares held in your name as the stockholder of record may be voted by you in person at the Annual Meeting. Shares held in street name may be voted by you in person at the Annual Meeting only if you obtain a legal proxy from the bank, broker or other agent that holds your shares, which legal proxy grants you the right to vote the shares. You must present that legal proxy at the Annual Meeting to be entitled to vote shares held in street name.

If my shares are held in street name by my broker, will my broker vote my shares for me?

Brokers, banks and other agents who have record ownership of shares that they hold in street name for their clients have the discretion to vote such shares on routine matters, such as ratification of independent registered public accounting firms. Brokers, banks and other agents holding shares in street name for their clients do not have the ability to cast votes with respect to director elections or other non-routine matters unless they have received instructions from the beneficial owner of the shares. **It is therefore important that you provide instructions to your broker, bank or other agent if your shares are held by a broker, bank or other agent so that your vote with respect to the election of directors; the advisory vote to approve the compensation of our Named Executive Officers; and the ratification of the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012 is counted.**

Can I change my vote after I have mailed my signed proxy card?

There are three ways in which you can change your vote before your proxy is voted at the Annual Meeting. First, you can send our secretary a written notice stating that you revoke your proxy. Second, you can complete and submit a new proxy card, dated a later date than the first proxy card. Third, you can attend the Annual

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Meeting and vote in person. Your attendance at the Annual Meeting will not, however, by itself revoke your proxy. If you hold your shares in street name and have instructed your broker, bank or other agent to vote your shares, you must follow directions received from your broker, bank or other agent to change those instructions.

What votes are needed to hold the Annual Meeting?

The presence, in person or by proxy, of stockholders entitled to cast at least a majority of the votes entitled to be cast by all stockholders will constitute a quorum for the transaction of business at the Annual Meeting. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspectors of election appointed for the meeting who will determine whether or not a quorum is present. For purposes of determining whether a quorum is present, abstentions and broker non-votes are counted as present.

What vote is required to approve each proposal?

In the case of any uncontested election (as that term is defined in our bylaws), to be elected a director, a majority of the total votes cast for and against such director nominee at which a quorum is present must be cast for such director nominee.

In the case of any contested election (as that term is defined in our bylaws), directors shall be elected by a plurality of votes cast at a meeting of stockholders duly called and at which a quorum is present. Each share may be voted either for or against as many individuals as there are directors to be elected and for whose election the share is entitled to be voted.

The affirmative vote of a majority of all votes cast on the matter at a meeting at which a quorum is present is necessary to: approve, on an advisory basis, the compensation of our Named Executive Officers; ratify the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012; and approve any other proposals to be brought before the Annual Meeting or any adjournment or postponement thereof.

Our bylaws provide that upon the failure of a director nominee to receive the affirmative vote for of a majority of the votes cast for and against such director nominee in an uncontested election, such director must tender his resignation following certification of such vote. Our Nominating and Corporate Governance Committee will then consider the tendered resignation offer and make a recommendation to our board as to whether to accept the resignation. In determining whether to accept the resignation, our board will consider, among other things, whether accepting the resignation of a director who receives a majority against vote (as the term is defined in our bylaws) would cause our company to fail to meet any applicable SEC or New York Stock Exchange, or NYSE, requirement. Our board will take action within 90 days following certification of the vote and any director whose resignation is under consideration will abstain from participating in the decision.

What is the effect of abstentions and broker non-votes?

Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote.

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PROPOSAL NO. 1:

ELECTION OF DIRECTORS

Our board of directors consists of six members, four of whom are independent within our director independence standards, which are consistent with the director independence standards of the NYSE. At the Annual Meeting, a total of six directors will be elected to hold office until the next annual meeting of stockholders or until their successors have been duly elected and qualified.

Unless otherwise instructed, the proxy-holders will vote the proxies received by them for the six nominees named below. If any of the nominees is unable, or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee designated by the present board to fill the vacancy. It is not presently expected that any of the nominees named below will be unable or will decline to serve as a director. If additional persons are nominated for election as directors, the proxy-holders intend to vote all proxies received by them in a manner to assure the election of as many of the nominees listed below as possible. In such event, the specific nominees to be voted for will be determined by the proxy-holders.

Information Regarding Nominees for Director

Biographical summaries and ages as of the date hereof of individuals nominated by our board of directors for election as directors are provided below:

Lloyd McAdams, age 66, has been our Chairman, Chief Executive Officer and President since our formation in 1997. Mr. McAdams is also the manager and a member of Anworth Management, LLC, the external Manager of our company, or the Manager. Mr. McAdams is also the Chairman, Chief Investment Officer and co-founder of Pacific Income Advisers, Inc., or PIA, an investment advisory firm organized in 1986 that manages portfolios for institutional and individual clients. Mr. McAdams is also the Chairman of Syndicated Capital, Inc., a registered broker-dealer. Mr. McAdams holds a Bachelor of Science in Statistics from Stanford University and a Masters in Business Administration from the University of Tennessee. Mr. McAdams is a Chartered Financial Analyst charterholder and a Certified Employee Benefit Specialist. Our board believes it is well served by Mr. McAdams' skills and perspective that reflects his senior executive operations experience as a Chairman and Chief Executive Officer, his investment experience as a Chief Investment Officer as well as being a Chartered Financial Analyst.

**Lee A. Ault III*, age 75, has been a director of our company since October 2002. Mr. Ault currently serves as Treasurer and Chairman of the Finance Committee of Saint John's Health Center Foundation. From 1999 to 2011, Mr. Ault served as a director of several mutual funds managed by Capital Research and Management Company, a subsidiary of The Capital Group. From 1998 to 2011, Mr. Ault served as a director of Office Depot, Inc. Mr. Ault also served as a director of the following public companies: Alex Brown Incorporated, Bankers Trust Corporation, Equifax Inc., Viking Office Products and Sunrise Medical Corporation. From 1999 until 2006, Mr. Ault served as Chairman of the Board of In-Q-Tel, Inc., a technology venture company funded principally by the Central Intelligence Agency. From 1968 until 1992, Mr. Ault was Chief Executive Officer of Telecredit, Inc., a publicly traded payment services company. He also served as President of Telecredit, Inc. from 1968 until 1983 and as Chairman of the Board from 1983 until 1992. Mr. Ault holds a Bachelor of Arts degree from Yale University. Our board believes it is well served by Mr. Ault's experience as Chief Executive Officer of a successful public company for 23 years and by his service on numerous boards of public and private companies and not-for-profit institutions.

**Charles H. Black*, age 85, has been a director of our company since its formation. Since 1985, Mr. Black has been a private investor and financial consultant. Mr. Black currently serves as an advisory director of Jet Fleet International Inc. and Beverly Hills Wealth Management. From 1985 to 1987, he served as Vice Chairman and director of Pertron Controls Corporation. From 1982 to 1985, Mr. Black served as the Executive Vice President, director, Chief Financial Officer and Chairman of the Investment Committee for Kaiser Steel Corporation. From 1980 to 1982, Mr. Black served as Executive Vice President and Chief Financial Officer of

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Great Western Financial Corporation. From 1957 to 1980, Mr. Black served at Litton Industries, where he ultimately held the position of Corporate Vice President and Treasurer. Previously, Mr. Black also served as a member of the Board of Governors of the Pacific Stock Exchange and a director of the following companies: Investment Company of America, Fundamental Investors Inc., AMCAP Fund, Orincon Corporation, Wilshire Technologies, Monarch Life Insurance Company, Southwest Marine and a Trustee of American Variable Insurance Trust. Our board believes it is well served by Mr. Black's perspective from his experience as a senior executive and his service as a director with many public companies. In particular, our board believes his experience and perspective specifically as an Executive Vice President and Chief Financial Officer and a Treasurer to be beneficial regarding financial reporting matters.

**Joe E. Davis*, age 77, has been a director of our company since its formation. He has been a private investor since 1982. Mr. Davis currently serves as a director (since 2000) of Natural Alternatives International, Inc. as well as a member of the Audit Committee (serving as the Chairman of the Audit Committee since 2004), a member of the Human Resources Committee (since 2003) and a member of the Nominating Committee of Natural Alternatives International, Inc. (since 2004). Mr. Davis served as a director of several mutual funds managed by Capital Research and Management Company. Previously, Mr. Davis served as Chairman of the Board of Linear Corporation (1987-1988); President and Chief Executive Officer of BMC Industries, Inc. (1985); and President and Chief Executive Officer of National Health Enterprises, Inc. (1974-1982). Formerly, Mr. Davis was a director and a member of the Audit Committee of BMC Industries, Inc. and Wilshire Technologies, Inc., and a director of Freymiller Trucking, Inc. Mr. Davis graduated from the University of Texas with a Bachelor of Science in Chemistry. He holds a Master of Business Administration degree from Harvard Graduate School of Business Administration. Our board believes it is well served from Mr. Davis's perspective from his experience as a Chairman and a Chief Executive Officer as well as his involvement as a director with investment companies. Our board believes it is particularly well served by Mr. Davis's experience with various board committees including his extensive experience with the audit committee and having served as an Audit Committee Chairman.

**Robert C. Davis*, age 67, has been a director of our company since May 2005. Mr. Davis has been the Chief Executive Officer of Optimus EMR, Inc. since 2000. Prior to that, he served as Chief Executive Officer and Chairman of the Board of Amcare, Inc. and as a director of Roger Cleveland Golf Company, Inc. Mr. Davis holds both a Master of Business Administration degree in Finance and a Bachelor of Science degree in Accounting from the University of Southern California. Our board believes it is well served from Mr. Robert Davis's perspective as a Chairman and Chief Executive Officer and director at several companies. Our board also believes that it is well served from his executive and educational background in financial matters.

Joseph E. McAdams, age 43, has been a director and Executive Vice President of our company since June 2002 and Chief Investment Officer of our company since January 2003. Mr. McAdams is also a member of the Manager. Mr. McAdams joined our company as a Vice President in June 1998. Mr. McAdams joined PIA in 1998 and holds the position of Senior Vice President with a specialty in mortgage-backed securities. Prior to joining PIA, from 1993 to 1998, Mr. McAdams was employed by Donaldson, Lufkin & Jenrette Securities Corp. in New York as a mortgage-backed security trader and research analyst. Mr. McAdams holds a Master of Arts degree in Economics from the University of Chicago and a Bachelor of Science degree in Economics from the Wharton School of the University of Pennsylvania. Mr. McAdams is also a Chartered Financial Analyst charterholder. Our board believes it is well served from Mr. McAdams's professional background in portfolio management, including fixed income securities and, particularly, mortgage-backed securities.

* Member of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.
Mr. Joe E. Davis and Mr. Robert C. Davis are not related.

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Vote Required

Directors receiving the affirmative vote for of a majority of the votes cast for and against such director nominee in an uncontested election at which a quorum is present will be elected to serve for the ensuing year or until their successors are duly elected and qualified.

*Our board unanimously recommends that you vote **FOR** the election of each of the nominees listed above. Proxies received will be so voted unless stockholders specify otherwise in their proxy.*

Independence of Nominees for Director

Our board has adopted the NYSE independence tests set forth in NYSE Listed Company Manual Section 303A.02 to assist it in making determinations of independence. Our board has determined that all of the nominees standing for election at the Annual Meeting, other than Mr. Lloyd McAdams, our Chairman, Chief Executive Officer and President, and Mr. Joseph E. McAdams, our Chief Investment Officer and Executive Vice President, are independent of our company under the aforementioned NYSE independence standards in that such nominees have no material relationship with us either directly or as a partner, stockholder or affiliate of an organization that has a relationship with our company. Our board has made this determination in part based on the following:

other than Messrs. Lloyd McAdams and Joseph E. McAdams, no nominee for director has any current or prior material relationships with our company aside from his directorship that could affect his judgment;

other than Messrs. Lloyd McAdams and Joseph E. McAdams, no nominee for director is, or has been within the last three years, an employee of our company, or has an immediate family member that is or has been within the last three years, an executive officer of our company;

other than Messrs. Lloyd McAdams and Joseph E. McAdams, no nominee for director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from our company, other than director and committee fees and pension or other forms of deferred compensation for prior service (such compensation not being contingent in any way on continued service);

no nominee for director or an immediate family member of a nominee for director is a current partner of a firm that is our company's internal or external auditor;

no nominee for director is a current employee of a firm that is our company's internal or external auditor;

no nominee for director has an immediate family member who is a current employee of a firm that is our company's internal or external auditor and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice;

no nominee for director or an immediate family member of a nominee for director was within the last three years a partner or employee of a firm that is our company's internal or external auditors and personally worked on our company's audit within that time;

no nominee for director or an immediate family member of a nominee for director is, or has been within the last three years, employed as an executive officer of another company where any of our company's present executive officers at the same time serves or served on that company's compensation committee; and

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other than Messrs. Lloyd McAdams and Joseph E. McAdams, no nominee for director is a current employee, or has an immediate family member that is a current executive officer of a company that has made payments to, or received payments from, our company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

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Board Leadership Structure

Our board has determined that, as of the date of this proxy statement, it is in the best interests of our company and its stockholders that the positions of Chairman of the Board and Chief Executive Officer are combined. Our board believes this provides the necessary responsiveness called for in a highly competitive sector and allows our company to be more adaptive and responsive to changing market conditions. As our Chief Executive Officer is the individual with primary responsibility for managing our company's day-to-day operations, he is best positioned to chair regular board meetings as we discuss key business and strategic issues. Our board believes that it has in place sound counter-balancing measures to ensure that our company maintains high standards of corporate governance and proper oversight. These counter-balancing measures include: our board consisting of a majority of independent directors; each of our board's standing committees including the Audit, Compensation and Nominating and Corporate Governance Committees being comprised of and chaired solely by non-employee directors; review of the Chief Executive Officer's and the Manager's performance remaining within the purview of the Compensation Committee; the independent directors meeting in executive sessions without the presence of management; and the independent directors meeting with and having access to both our internal and external auditors and attorneys. In addition, our board, through its independent directors, has adopted the position of a lead independent director to strengthen the independence and roles of the independent directors. The duties of the lead independent director are detailed in the following paragraph.

Lead Independent Director

Our independent directors appoint a lead independent director to strengthen the independence and role of the independent directors. The duties of the lead independent director are to:

preside at board meetings in the absence of the Chairman of the Board, or upon designation by a majority of directors;

preside at executive sessions or other meetings of the independent directors;

recommend the retention of consultants, legal, financial or other professional advisors who are to report directly to our board;

consult with the Chairman of the Board as to agenda items for board and committee meetings; and

coordinate with committee chairs in the development and recommendations relative to board and committee meeting agendas.

The independent directors have decided to rotate the position of lead independent director among the independent directors each calendar year. Mr. Charles Black has been appointed by our independent directors as our lead independent director for the 2012 calendar year, after which the role of lead independent director will be fulfilled by another of our independent directors for a one-year calendar term.

Our Board's Role in Risk Oversight

Enterprise risk oversight consists of understanding the amount of risk, on a broad level, that our company is willing to accept in pursuit of stockholder value; understanding and assessing the existing risk management processes in place; understanding and assessing our company's strategies and operational initiatives in connection with overall risk tolerance; and being apprised of the most significant risks and whether management is responding to such risks prudently. The person within our company who is primarily responsible for enterprise risk oversight is our Chief Executive Officer, who reports directly to our board. Our board is involved in risk oversight through its regular meetings with management to review operations and strategies, risk profiles, updates on changes in our industry, economic conditions and laws and regulations, review of financial performance and key performance metrics as well as open communication with management and both our internal and external auditors and attorneys. Additionally, our board's role in risk oversight is enhanced through the activities and responsibilities of the committees of our board—the Audit Committee (responsible for

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overseeing financial risks), the Compensation Committee (responsible for overseeing risks associated with our equity plan arrangements and the performance of the Manager), and the Nominating and Corporate Governance Committee (responsible for overseeing risks associated with director independence and conflicts of interest). The descriptions of these committees are detailed below and further details of the responsibilities of each committee may be found in our committee charters which are contained in the Governance Documents section of our website.

Board Committees and Charters

Our board has established an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. Other committees may be established by our board from time to time. The following is a description of each of the committees and their composition.

Audit Committee

Our Audit Committee consists of four members: Mr. Joe Davis (chairman), Mr. Charles Black, Mr. Lee Ault, and Mr. Robert Davis, each of whom qualifies as independent under the independence standards of the NYSE. Our board has determined that:

Mr. Black qualifies as an audit committee financial expert, as defined by the SEC, and

all members of the Audit Committee are financially literate, within the meaning of NYSE rules, and independent, under the strict audit committee independence standards of the SEC and the NYSE.

Our Audit Committee operates pursuant to a written charter adopted by our board. Among other things, the Audit Committee Charter calls upon the Audit Committee to:

review the financial information that will be provided to our stockholders and others;

review the adequacy of our systems of internal controls that management and our board have established;

review our audit and financial reporting process; and

maintain free and open lines of communication among the Audit Committee, our independent registered public accounting firm and management.

It is not the duty of the Audit Committee to determine that our financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for preparing our financial statements, and our independent registered public accounting firm is responsible for auditing those financial statements. Our Audit Committee does, however, consult with management and our independent registered public accounting firm prior to the presentation of financial statements to our stockholders and, as appropriate, initiate inquiries into various aspects of our financial affairs. In addition, the Audit Committee is responsible for retaining, evaluating and, if appropriate, recommending the termination of our independent registered public accounting firm and approving professional services provided by our independent registered public accounting firm.

The Audit Committee held four meetings during 2011.

Compensation Committee

Our Compensation Committee consists of four members: Mr. Charles Black (chairman), Mr. Joe Davis, Mr. Lee Ault and Mr. Robert Davis. Our board has determined that all of the Compensation Committee members qualify as:

independent directors under the NYSE independence standards;

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non-employee directors under the Securities Exchange Act of 1934, as amended, or the Exchange Act, Rule 16b-3; and

outside directors under Section 162(m) of the Internal Revenue Code of 1986, or the Code.

Prior to the externalization of our management function, or the Externalization, pursuant to our entry into a management agreement, or the Management Agreement, with Anworth Management, LLC, or the Manager, effective as of December 31, 2011, and for our 2011 fiscal year, our Compensation Committee had been delegated authority by our board to administer our equity incentive plans, to determine each Named Executive Officer's salary and additional cash compensation, if any, and to ratify salary and additional cash compensation, if any, for all other executive officers following recommendation by our Chief Executive Officer. Our Chief Executive Officer had been delegated the authority by the Compensation Committee to determine salary and additional cash compensation, if any, to be paid to all other employees. The Compensation Committee did not use the services of any external consultant in determining either executive or director compensation.

During 2011, our Compensation Committee operated pursuant to a written charter that was adopted by our board (and last amended in 2008). Among other things, as specified in the charter, the Compensation Committee:

determined our compensation policies and all forms of compensation to be provided to our salaried employees;

reviewed and approved the specific salaries and additional cash compensation, if any, for the Named Executive Officers and reviewed their overall job performance;

reviewed and ratified the specific salaries and additional cash compensation, if any, for the executive officers (other than the Named Executive Officers) and reviewed their overall job performance;

reviewed and approved the proposed compensation and terms of employment of persons to be hired as executive officers;

reviewed and approved fringe benefits and perquisites of salaried employees, executive officers and directors;

reviewed and approved amendments to benefit plans and programs for salaried employees and executive officers;

administered our 2002 Incentive Compensation Plan; our 2004 Equity Compensation Plan; our 2009 Dividend Equivalent Rights, or DERs, Plan; and our Deferred Compensation Plan; and

made recommendations with respect to stock, restricted stock, option and DER grants and other incentive compensation arrangements for our employees.

Following the Externalization effective as of December 31, 2011, the Compensation Committee adopted a new charter to reflect changes to its responsibilities. As specified in the new charter, among other things, the Compensation Committee shall:

evaluate the performance of the Manager;

review and approve the corporate goals and objectives relevant to the Chief Executive Officer's compensation; evaluate the performance of the Chief Executive Officer in light of those goals and objectives; and determine and approve the Chief Executive

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Officer's compensation level based on such evaluation (effective December 31, 2011, our Company became an externally-managed REIT and does not pay any compensation to any of its officers other than equity-based compensation);

make recommendations to our board with respect to non-Chief Executive Officer compensation, incentive compensation and equity-based plans that are subject to board approval (effective December 31, 2011, our Company became an externally-managed REIT and does not pay any compensation to any of its officers other than equity-based compensation);

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review and make recommendations to our board with respect to compensation for independent directors;

review and approve fringe benefits and perquisites of directors and amendments to any related benefit plans or programs;

administer, and make recommendations with respect to, options, DERs and restricted stock (including price, terms and amount) to be granted by our board under the Corporation's equity incentive plans including, with respect to our 2004 Equity Compensation Plan and 2007 Dividend Equivalent Rights Plan;

review the compensation and fees payable to the Manager under the Management Agreement; and

review and approve all compensation-related documents and disclosure required to be filed with regulatory organizations. The Compensation Committee held two meetings during 2011.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee consists of four members: Mr. Lee Ault (chairman), Mr. Charles Black, Mr. Joe Davis and Mr. Robert Davis. The committee is composed entirely of independent directors as required by NYSE rules. Our Nominating and Corporate Governance Committee establishes and implements our corporate governance practices and nominates individuals for election to our board.

Our Nominating and Corporate Governance Committee operates pursuant to a written charter adopted by our board. Among other things, the charter calls upon the Nominating and Corporate Governance Committee to:

develop criteria for selecting new directors and to identify individuals qualified to become board members and members of the various committees of our board;

select, or recommend that our board select, the director nominees for each annual meeting of stockholders as well as the committee nominees; and

develop and recommend to our board, and review on at least an annual basis, a set of corporate governance principles applicable to our company.

Our board believes that it is necessary for each of our company's directors to possess many qualities and skills. When searching for new candidates, the Nominating and Corporate Governance Committee considers the evolving needs of our board and searches for candidates that fill any current or anticipated future needs. Our board also believes that all directors must possess a considerable amount of business management (such as experience as a chief executive or chief financial officer) and educational experience. The Nominating and Corporate Governance Committee first considers a candidate's management experience and then considers issues of judgment, background, stature, conflicts of interest, integrity, ethics and commitment to the goal of maximizing stockholder value when considering director candidates. The Nominating and Corporate Governance Committee does not have a formal policy with respect to diversity; however, our board and the Nominating and Corporate Governance Committee believe that it is essential that our board members represent diverse viewpoints. In considering candidates for our board, the Nominating and Corporate Governance Committee considers the entirety of each candidate's credentials in the context of these standards. With respect to the nomination of continuing directors for re-election, the individual's contributions to our board are also considered. The Nominating and Corporate Governance Committee has reviewed the qualifications, skills and experience of each of the director candidates listed in Proposal No.1 (Election of Directors) and has concluded as of the date of this proxy statement that each of these individuals should serve as directors of our company.

The Nominating and Corporate Governance Committee held two meetings during 2011.

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Additional Governance Matters

Code of Conduct

Our board has established the Anworth Mortgage Asset Corporation Code of Ethics and Business Conduct, or the Code of Conduct, which qualifies as a code of ethics as defined by Item 406 of Regulation S-K of the Exchange Act. Among other matters, the Code of Conduct is designed to deter wrongdoing and to promote:

honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;

compliance with applicable governmental laws, rules and regulations;

prompt internal reporting of violations of the Code of Conduct to appropriate persons identified in the Code of Conduct; and

accountability for adherence to the Code of Conduct.

Waivers to the Code of Conduct may be granted only by our Nominating and Corporate Governance Committee. In the event that the Nominating and Corporate Governance Committee grants any waivers of the elements listed above to any of our directors, officers or employees, or if any amendment is made to any provision of the Code of Conduct, we will make the required filing with the SEC and announce the waiver or amendment on the Governance Documents section of our website, both within four business days.

Limitation on Board Members' Service on Other Public Company Boards

Our Nominating and Corporate Governance Committee recommended, and our board approved, a policy that limits our directors' ability to serve on more than three public company boards (including our board) without the prior approval of our board. In deciding whether to grant a waiver, the Nominating and Corporate Governance Committee and our board will take into account, among other things, the nature and time involved in the director's service on other boards. In addition, service on boards and committees of other companies must be in compliance with our conflicts of interest policies.

Stock Ownership Guidelines for Directors and Executive Officers

Our Nominating and Corporate Governance Committee recommended, and our board approved, an amended policy that sets out stock ownership guidelines for our directors and executive officers. Our directors are required to hold shares of our common stock with a minimum value equal to three times the amount of the annual retainer paid to the directors (the annual retainer is currently \$50,000). These guidelines must be met within three years of joining our board or, in the case of directors serving at the time these guidelines were adopted in 2007, within three years following adoption.

The Chief Executive Officer is required to hold shares of our common stock with a minimum value of \$1,000,000. The Chief Investment Officer is required to hold shares of our common stock with a minimum value of \$500,000. Other executive officers who are Section 16 insiders are required to hold shares of our common stock with a minimum value of \$100,000. These guidelines must be met within three years of becoming an insider for purposes of Section 16 of the Exchange Act.

For purposes of the foregoing ownership guidelines, shares owned outright by the director or executive officer (or their immediate family members residing in the same household), shares held in trust for the benefit of the director or executive officer (or their immediate family members residing in the same household) and restricted shares granted to the director or executive officer under one of our employee benefit plans, may all be

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counted towards reaching the minimum amounts. Deferred stock awards do not, however, count towards satisfaction of these guidelines. Compliance with these guidelines may be waived by the Nominating and Corporate Governance Committee for directors joining our board from government, academia or similar vocations, and for directors and Chief Executive Officer if compliance would create severe hardship or prevent compliance with a court order.

Public Availability of Corporate Governance Documents

Our key corporate governance documents, including our Code of Conduct and the charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are:

available on our corporate website at <http://www.anworth.com> (by including the foregoing Internet address link, our company does not intend to incorporate by reference to this proxy statement any material other than that specifically incorporated by reference herein);

available in print to any stockholder who requests them from our corporate secretary; and

filed as exhibits to our securities filings with the SEC.

Director Compensation

Our independent directors receive an annual fee of \$50,000, payable quarterly, for service on our board, plus meeting fees of \$2,000 for each formally called board meeting, which is reduced to \$1,000 if the participation is telephonic, and \$1,000 for each formally called committee meeting, which is reduced to \$500 if the participation is telephonic, in each case that the independent directors attend at which a quorum is present. We reimburse all of our directors for the expenses they incur in connection with attending board and committee meetings.

Each independent member of our board who is first elected or appointed as a board member at any time on or after the effective date of the 2004 Equity Compensation Plan was automatically awarded a stock grant of 2,000 shares of restricted common stock upon the date such person is initially appointed to our board. The restricted common stock does not vest until retirement from our board. In addition, on the first business day in July in each calendar year following the effective date of the 2004 Equity Compensation Plan, each independent board member then in office was automatically awarded a stock grant of 2,000 shares of restricted common stock, which does not vest until retirement from our board, provided such individual has served as an independent board member for at least six months. In 2009, our board approved the issuance of phantom common stock in lieu of restricted common stock for all future equity awards to our independent directors. We may also make additional grants of equity awards to our independent board members from time to time.

The following table sets forth information regarding the various components of compensation to our independent directors during the fiscal year ended December 31, 2011:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in	Stock Awards	Other Compensation	Total
	Cash (\$)	(\$)(1)	(\$)(2)	(\$)
Lee A. Ault	70,000	5,043	4,760	79,803
Charles H. Black	70,500	5,043	4,760	80,303
Joe E. Davis	70,000	5,043	4,760	79,803
Robert C. Davis	70,000	5,043	4,760	79,803

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- (1) Each of our independent directors receives an annual stock award of 2,000 shares of phantom common stock which do not vest until retirement from our board. The values shown in the table above represent the fair

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value on the date of the award. The fair value of the aforementioned stock awards was estimated using the Black-Scholes model with the following weighted-average assumptions: dividend yield: 14%; expected volatility: 31%; discount rate bond equivalent yield: 4.45%; and expected lives: 8 years. The closing price of our common stock on the date of the 2011 awards was \$7.62.

- (2) In connection with each annual stock award of 2,000 shares of phantom common stock, each of our independent directors receives a grant of 2,000 dividend equivalent rights, or DERs, awarded under the 2007 Dividend Equivalent Rights Plan. A DER is a right to receive amounts equal in value to the distributions paid on a share of our common stock. A DER does not create any stock option or authorize additional shares to be granted to employees, officers or directors. The amounts shown in this column reflect the payments received on all previously issued DERs granted to our independent directors.

Director Attendance

During 2011, our board held eleven meetings. Each director attended more than 89% of the aggregate of the meetings of our board and the meetings of each committee of which that director is a member.

Executive Sessions of the Board

Our independent directors meet regularly in executive sessions without management, as required by our Corporate Governance Guidelines, to review the performance of management and our company and any related matters. Generally, executive sessions are held in conjunction with regularly scheduled meetings of our board. We expect our independent directors to have at least four executive sessions each year.

Stockholder Meeting Attendance

As a general matter, all of our directors are encouraged to attend our Annual Meetings of Stockholders. All of our directors attended the 2011 Annual Meeting of Stockholders.

Compensation Committee Interlocks and Insider Participation

No officer or employee participated in deliberations of the Compensation Committee or our board concerning their own compensation. None of our executive officers has served on our board or on the compensation committee of any other entity which had officers who served on our board or our Compensation Committee.

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All of our officers serve at the discretion of the board. The persons listed below are our executive officers:

Name	Age	Positions with our Company
Lloyd McAdams	66	Chairman of the Board, Chief Executive Officer and President
Thad M. Brown	62	Chief Financial Officer, Treasurer and Secretary
Joseph E. McAdams	43	Chief Investment Officer, Executive Vice President and Director
Heather U. Baines	70	Executive Vice President
Charles J. Siegel	62	Senior Vice President Finance and Assistant Secretary
Bistra Pashamova	41	Senior Vice President and Portfolio Manager
Evangelos Karagiannis	50	Vice President and Portfolio Manager

Biographical information regarding each executive officer other than Messrs. Lloyd McAdams and Joseph E. McAdams is set forth below. Messrs. Lloyd McAdams and Joseph E. McAdams biographical information is set forth above under Election of Directors.

Thad M. Brown has been the Chief Financial Officer, Treasurer and Secretary of our company since June 2002 and is also a member of the Manager. Mr. Brown has also been the Chief Operating and Compliance Officer, Secretary and Treasurer of PIA since April 2002.

Heather U. Baines has been an Executive Vice President of our company since its formation and is also a member of the Manager. Since 1987, Ms. Baines has also held the position of President and Chief Executive Officer of PIA.

Charles J. Siegel joined our company in October 2004, has served as Senior Vice President Finance since January 2005 and also as Assistant Secretary since May 2005, and is also an employee of the Manager.

Bistra Pashamova joined our company in June 2002 as a Portfolio Manager and was appointed as Vice President in October 2002. In March 2009, Ms. Pashamova was appointed as Senior Vice President of our company. Ms. Pashamova is also an employee of the Manager. Ms. Pashamova joined PIA in 1997 and holds the positions of Vice President and Portfolio Manager at PIA. Ms. Pashamova serves as Fixed Income Portfolio Manager at PIA with a specialty in mortgage-backed securities.

Evangelos Karagiannis has been a Vice President and Portfolio Manager of our company since its formation and is also an employee of the Manager. Mr. Karagiannis joined PIA in 1992 and holds the positions of Senior Vice President and Portfolio Manager at PIA. Mr. Karagiannis serves as Fixed Income Portfolio Manager at PIA with a specialty in mortgage-backed securities and is also responsible for PIA's quantitative research.

As a result of the externalization of our management function as of December 31, 2011, the functions of our executive officers (other than our statutory officers consisting of Mr. Lloyd McAdams, as our Chief Executive Officer and President, and Mr. Thad Brown, as our Chief Financial Officer, Treasurer and Secretary) are ministerial in nature, as their primary functions are now performed by such officers in their roles as members or employees of the Manager.

Compensation Discussion and Analysis

Due to the externalization of our management function effective as of December 31, 2011, a majority of the following discussion will no longer apply in the future. Beginning on January 1, 2012, no compensation will be paid to any of our officers, other than awards under our 2004 Equity Compensation Plan and 2007 Dividend Equivalent Rights Plan and potential payments under the amended Change in Control and Arbitration Agreements we have entered into with certain of our other officers and employees. Accordingly, the following section reflects our compensation philosophies during 2011.

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This discussion and analysis focuses on: (1) the objectives of our executive compensation policies and practices; (2) the actions or behaviors the compensation program is designed to reward; (3) each element of compensation; (4) the rationale for each element of compensation; (5) the methodologies utilized by us in determining the amounts to pay for each element; and (6) how the elements of compensation and our rationale for each element fit together within our overall compensation objectives.

Compensation Philosophy and Objectives

Our business objective is to produce income for distribution to our stockholders as dividends.

Prior to the Externalization, we maintained executive compensation programs that were designed to align total executive compensation with the level of income that we produce. We believe that our executive compensation programs benefited us by attracting, motivating, rewarding and retaining top quality senior executives, officers and employees who are committed to our core values of excellence and integrity.

The Compensation Committee's objectives in developing and administering the executive compensation programs were to: (1) attract, retain and motivate a highly skilled senior executive team that will contribute to the successful performance of our company; (2) align the interests of the senior executive team with the interests of our stockholders by motivating our senior executives to increase long-term stockholder value; (3) provide compensation opportunities that are competitive within industry standards, thereby reflecting the value of the position in the marketplace; (4) support a culture committed to pay for performance where compensation is commensurate with the level of performance achieved; and (5) maintain flexibility and discretion to allow us to recognize the unique characteristics of our operations and strategy, and our prevailing business environment, as well as changing labor market dynamics.

The Compensation Committee believes that it was important to create a compensation program that appropriately balanced short-term, cash-based compensation with long-term, equity-based compensation. This included the following primary components: (1) base salaries paid in cash which recognized the unique role and responsibilities of a position as well as an individual's level of experience in that role; (2) annual discretionary awards which were paid in cash or in long-term equity awards in lieu of cash that recognized an individual's contribution to our short-term financial and operational performance; and (3) cash and equity compensation paid to the Chief Executive Officer and Chief Investment Officer based on the return on average equity, or ROAE, earned during the year.

The Compensation Committee annually benchmarked the total compensation provided to our executive officers to industry-based compensation practices within the agency mortgage REIT industry. While it was the Compensation Committee's goal to provide compensation opportunities that reflected company and individual performance and that were competitive within industry standards, specific target market positions for executive officer pay levels were not established.

Setting Executive Compensation

Prior to the Externalization, our Compensation Committee regularly conducted a review of our senior executive compensation practices in order to ensure that the senior executive compensation program and policies remain aligned with the goal of enhancing stockholder value through compensation practices that attract, motivate and retain key senior executives. In conducting this review, the Compensation Committee examined all components of our compensation programs offered to senior executives including base salary, annual discretionary cash and equity compensation and payments on DERs, the dollar value to the senior executives (and the cost to us) of any perquisites and other personal benefits, the earnings and accumulated payout obligations under the Deferred Compensation Plan and the actual projected payout obligations under several potential severance and change-in-control scenarios.

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For each year prior to the Externalization, our Compensation Committee reviewed our executive compensation by analyzing the compensation practices of our agency mortgage REIT peers along with other relevant factors such as firm profitability and performance. We consider our peer group to be agency mortgage REITs but have narrowed this to the companies in this peer group which we believe are most similar to the important aspects of our business. This peer group consists of the following companies:

American Capital Agency Corp.	Hatteras Financial
Annaly Capital Management, Inc.	MFA Financial, Inc.
Capstead Mortgage Corporation	Two Harbors Investment Corp.
CYS Investments, Inc.	

While we consider the compensation practices of our peer group, we do not attempt to set the various components of our compensation arrangements to target a particular point or benchmark along the spectrum offered by our peer group. Instead, the Compensation Committee retained considerable discretion in establishing the compensation arrangements offered to the senior executives. Although the Compensation Committee considered peer group comparisons, they were not material to its determination of base salary and additional cash compensation.

The Compensation Committee believes that the use of long-term incentive compensation through the granting of restricted stock and other dividend and equity awards in lieu of cash compensation promoted the long-term performance and commitment of management. The Compensation Committee had reviewed the use of such awards in our peer group and had determined that our practice of compensating our company's senior executives, officers and employees with equity compensation in lieu of cash compensation is a practice used by the companies within the peer group.

Based upon the results of the advisory vote on the compensation of our Named Executive Officers at our 2011 Annual Meeting of Stockholders (over 94% in favor of), the Compensation Committee determined that no changes to our compensation structure were needed.

Relationship Between Elements and Objectives

In determining the total amount and mixture of the compensation package for each executive officer, prior to the Externalization, the Chief Executive Officer and the Compensation Committee considered individual performance including past and expected future contributions, overall performance, long-term goals and such other factors as the Chief Executive Officer and the Compensation Committee determined to be appropriate, which are summarized below under the heading *Discretionary Cash Compensation* on pages 18 and 19 of this proxy statement. There were no pre-identified annual targets for either aggregate amount or mixture of compensation. Such compensation was subject to the rights of certain executives to be paid certain minimum amounts or percentages under their respective employment agreements and the 2002 Incentive Compensation Plan, or the 2002 Incentive Plan, as applicable. The use of both cash compensation and long-term compensation (equity awards) achieves the objective of attracting, motivating and retaining talented executive officers and employees. The 2002 Incentive Plan provided certain senior executive officers with the incentive to maximize return on equity. Long-term compensation realized through the use of equity awards achieved the objectives of aligning management's interests with stockholders' interests; attracting, motivating and retaining talented senior executive officers; and ensuring the long-term commitment of the management team.

Elements of Compensation

The key elements of our compensation program included: (1) base salary; (2) annual discretionary compensation paid in cash; (3) annual discretionary compensation paid in common stock and DERs in lieu of cash; (4) cash and equity compensation paid to the Chief Executive Officer and Chief Investment Officer based on the ROAE earned during the year; and (5) any perquisites and other benefits.

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Base Salary

We believe that a competitive annual base salary was an important component of compensation to retain and recruit the specific executive talent needed for success in our business.

Employees (including Named Executive Officers) received base salaries as a portion of their compensation for providing us services during their employment. When setting base salaries, the Compensation Committee and the Chief Executive Officer took into consideration the scope of the role and responsibilities of the employee's position, education, experience and competitive market practices. The base salaries of our Chief Executive Officer (Mr. Lloyd McAdams) and our Chief Investment Officer (Mr. Joseph E. McAdams) were set in accordance with their respective employment agreements.

Salaries are designed to be competitive within the marketplace as one of the elements in attracting, motivating and retaining our management team.

Equity Compensation in Lieu of Cash

The Compensation Committee believes that the commitment of the management team to produce income over the long-term was an important determinant of investment returns achieved for our stockholders. One of the elements used to promote this commitment of management was their being paid a portion of their annual compensation in the form of equity (restricted common stock) and/or DERs in lieu of cash. The portion of each employee's compensation that was paid in equity or DERs in lieu of cash was based on the Chief Executive Officer's assessment which was presented to the Compensation Committee. Generally, the Chief Executive Officer recommended that senior executive officers and other Named Executive Officers receive a greater portion of their compensation paid in restricted stock or DERs in lieu of cash than do other officers and employees. The Compensation Committee believes that senior executive officers receiving a significant portion of their annual compensation as restricted equity and/or DERs in lieu of cash served to link senior executive management interests with stockholder interests and incentivized senior executive officers to make long-term income generation decisions that are in the stockholders' and our company's interests and provided an incentive to maximize stockholder value over the long-term. In granting such equity interests to management and employees, the Compensation Committee considered our company's stock ownership limitations that apply to all stockholders. These limitations are in our articles of incorporation.

Under the terms of their employment agreements (as more fully described on pages 28 and 29) as amended, a long-term equity incentive structure was established in 2008 for Messrs. Lloyd McAdams and Joseph E. McAdams. As a result, Messrs. Lloyd McAdams and Joseph E. McAdams were eligible to participate in a performance-based bonus pool that was funded based on our company's ROAE. ROAE was calculated as the twelve-month GAAP net income excluding the effect of depreciation, preferred stock dividends, gains/losses on asset sales and impairment charges, divided by the average stockholder equity less goodwill and preferred stockholder equity. The Compensation Committee evaluated various measures and factors of performance in developing this structure and, in its view, ROAE was determined to be the single best indicator of our overall performance and therefore of value creation for our stockholders. This was in part due to the fact that ROAE was a metric of our performance that has been calculated and reported on a consistent basis since our inception in 1998.

Following our entry into the Management Agreement effective as of December 31, 2011 and in connection with the Externalization, the employment agreements for Messrs. Lloyd McAdams and Joseph E. McAdams and Ms. Heather U. Baines were terminated. Although they are now employees of the Manager, Mr. Lloyd McAdams still serves as Anworth's Chairman, Chief Executive Officer and President. Mr. Joseph E. McAdams still serves as Anworth's Chief Investment Officer and on Anworth's board as a director. Ms. Heather U. Baines still serves as Anworth's Executive Vice President. The functions of our executive officers (other than our statutory officers consisting of Mr. Lloyd McAdams, as our Chief Executive Officer and President, and Mr. Thad Brown, as our Chief Financial Officer, Treasurer and Secretary) are ministerial in nature, as their primary functions are now performed by such officers in their roles as members or employees of the Manager.

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Discretionary Cash Compensation

Prior to the Externalization, employees (including Named Executive Officers) were able to receive additional discretionary cash compensation usually paid at year-end as a portion of their compensation for providing services for us during the year. In regards to discretionary compensation amounts for employees (other than our Named Executive Officers), the Chief Executive Officer was responsible for determining these amounts based on various criteria and performance measures, which he deemed most relevant for the particular employee for the period under review. The Compensation Committee had considerable discretion when determining discretionary compensation amounts for our Named Executive Officers. When exercising this discretion, the Compensation Committee considered various criteria and performance measures, which it considered the most relevant for the period under review. Among the criteria considered were: (a) the Named Executive Officers' specific responsibilities during the calendar year; (b) the Named Executive Officers' specific accomplishments during the calendar year; (c) any exceptional contributions by the Named Executive Officer during the calendar year; (d) annualized base salary paid to the Named Executive Officer during the calendar year and the two prior calendar years; (e) the salary and total compensation paid to other mortgage REIT executives with similar responsibilities; and (f) the Named Executive Officer's qualifications and level of experience, which includes educational and employment experience.

In determining total compensation for each Named Executive Officer in 2011, the Compensation Committee reviewed the above criteria and determined for 2011 that the key criteria were the specific responsibilities and accomplishments and any exceptional contributions during 2011. The Compensation Committee did not make any adjustments in 2011 for base salaries and discretionary compensation based on its review of peer group data. Although there is no specific set value in compensation placed on each Named Executive Officer's qualifications and level of experience, the Compensation Committee recognized that there is value in retaining well qualified and experienced individuals and took this into account but did not use a formula in determining total compensation. In determining total compensation for 2011, the Compensation Committee reviewed other elements of compensation. The only Named Executive Officers who received common stock and cash compensation incentives were Messrs. Lloyd McAdams and Joseph E. McAdams through the performance-based bonus pool on the compensation plan in their employment agreements which were effective through December 31, 2011. Regarding Messrs. Lloyd McAdams and Joseph E. McAdams, the Compensation Committee considered that a substantial portion of their compensation should be derived from the performance-based bonus plan under their employment agreements in order to further align their interests with those of our stockholders. The amount of discretionary additional cash compensation paid to each of our Named Executive Officers was an important component of total compensation considered by the Compensation Committee. Set forth below are the responsibilities, accomplishments and contributions the Compensation Committee considered to be key criteria in determining both additional discretionary cash compensation and total compensation:

Mr. Lloyd McAdams serves as Chairman, Chief Executive Officer and President. His specific responsibilities in 2011 included being primarily responsible for the overall direction and management of our company, its asset acquisition, capital and leverage, risk management, asset/liability management, financing reporting, compliance, employee morale and internal controls. Mr. McAdams will continue to perform and be responsible for these functions as a member of the Manager. During 2011, Mr. McAdams continued to enhance the professional development of our company's professional staff, and under his direction and management, our company remained profitable earning approximately \$123 million; raised additional equity capital of approximately \$92 million; and paid \$0.94 per common share in dividends, representing a yield for stockholders of more than 14%.

Mr. Joseph E. McAdams serves as Chief Investment Officer. His specific responsibilities in 2011 included being primarily responsible for our company's day-to-day investment performance, strategy and asset/liability management. Mr. McAdams will continue to perform and be responsible for these functions as a member of the Manager. Mr. McAdams' specific major accomplishments in 2011 were: his significant contributions to our company which resulted in our company earning approximately \$123 million; raised additional equity capital of approximately \$92 million; and paid \$0.94 per common share in dividends, representing a yield for

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stockholders of more than 14%. Mr. McAdams also continued to enhance the professional development of our company's investment staff; profitably directed our company's purchase of \$3.26 billion in mortgage-backed securities; managed approximately \$35 billion in borrowings and repayments under repurchase agreements; and managed \$3.03 billion for our company as counterparty to interest rate swap agreements.

Mr. Thad M. Brown serves as Chief Financial Officer. His specific responsibilities in 2011 included having overall responsibility for financial reporting, financial systems and internal controls, and in managing information technology. He also assisted Mr. Lloyd McAdams with the financial direction of our company and on capital raising efforts. Mr. Brown will continue to perform and be responsible for these functions as a member of the Manager. His specific major accomplishments in 2011 included his contributions to our company which resulted in our company earning approximately \$123 million; and raised additional equity capital of approximately \$92 million. Mr. Brown also continued to enhance the professional development of our company's financial staff, successfully managed our company's financial reporting process, internal controls, information technology and insurance coverage.

Mr. Charles J. Siegel serves as Senior Vice President Finance. His specific responsibilities in 2011 included direct responsibility for financial reporting, financial systems and internal controls, supervision of our Controller, our Director of Investor Relations and our Financial Operations Manager, and assisting Mr. Brown and Mr. Lloyd McAdams with the financial direction of our company and in capital raising efforts. Mr. Siegel will continue to perform and be responsible for these functions as an employee of the Manager. His specific major accomplishments in 2011 included his contributions to our company which resulted in our company earning approximately \$123 million; and raised approximately \$92 million in additional equity capital. Mr. Siegel also helped to successfully manage the financial reporting process, internal controls, financial operations and investor relations.

Ms. Bistra Pashamova serves as Senior Vice President and Portfolio Manager. Her specific responsibilities in 2011 included direct responsibility for asset acquisition, managing the financing of our company's portfolio, managing our company's interest rate swap agreements and assisting Mr. Joseph E. McAdams in asset liability management, and investment performance and strategy. Ms. Pashamova will continue to perform and be responsible for these functions as an employee of the Manager. Her specific major accomplishments in 2011 included her contributions to our company which resulted in our company earning approximately \$123 million. Ms. Pashamova also profitably purchased \$3.26 billion in mortgage-backed securities for our company, managed approximately \$35 billion in borrowings and repayments under repurchase agreements, and managed \$3.03 billion for the company as counterparty to interest rate swap agreements.

2002 Incentive Compensation Plan

Under our 2002 Incentive Plan, various executive officers, including our Chief Executive Officer (Mr. Lloyd McAdams), our Chief Investment Officer (Mr. Joseph E. McAdams), our Executive Vice President (Ms. Heather U. Baines), and other executives had the opportunity to earn incentive compensation during each fiscal quarter. The 2002 Incentive Plan required that we pay all amounts earned thereunder each quarter (subject to offset for accrued negative incentive compensation, as described below). Pursuant to their employment agreements, Messrs. Lloyd McAdams and Joseph E. McAdams and Ms. Heather U. Baines were entitled to minimum percentages of all amounts paid under the 2002 Incentive Plan. The 2002 Incentive Plan was tied directly to our performance and was designed to incentivize key employees to maximize return on equity. The total aggregate amount of compensation that has been earned quarterly by all participants under the 2002 Incentive Plan equaled a percentage of net income, before incentive compensation, in excess of the amount that would have produced an annualized return on average net worth equal to the ten-year U.S. Treasury Rate plus 1%, or the Threshold Return. At December 31, 2011, 2010 and 2009, the Threshold Return was 3.05%, 3.86% and 4.44%, respectively.

The 2002 Incentive Plan contained a high water-mark provision requiring that in any fiscal quarter in which net income is an amount less than the amount necessary to earn the Threshold Return, our company would

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calculate negative incentive compensation for that fiscal quarter which was carried forward and would offset future incentive compensation earned under the 2002 Incentive Plan with respect to participants who were participants during the fiscal quarter(s) in which negative incentive compensation was generated. At December 31, 2011, the negative incentive compensation accrual carry forward under the 2002 Incentive Plan had been reduced to zero, which represented a reduction from the negative carry forward of \$6.4 million under the 2002 Incentive Plan at December 31, 2010. We made no payouts under the 2002 Incentive Plan in 2011.

Following our entry into the Management Agreement effective as of December 31, 2011 and in connection with the Externalization, we terminated the 2002 Incentive Plan as of December 31, 2011.

Dividend Equivalent Rights

Our 2007 Dividend Equivalent Rights Plan, or DER Plan, is intended to provide our Compensation Committee and our board with additional compensation tools to better align the interests of our company's employees, officers and directors with those of its stockholders. The DER Plan is intended to provide incentives to those employees, officers, and directors who are expected to provide significant services to our company, to encourage such employees, officers, and directors to remain in the employ of our company, to attract new employees, officers, and directors and to provide additional incentive to increase their efforts in providing services to our company. A DER is a right to receive amounts equal in value to the dividend distributions paid on a share of our common stock. A DER award does not involve the grant of equity or the right to acquire the same.

In awarding DERs, the Compensation Committee considered the same criteria detailed on page 17 of this proxy statement. More specifically, the criteria were applied as follows: the Compensation Committee first decided which individuals should receive DERs; next, the Compensation Committee took into consideration each individual's total compensation, past DER awards, if any, and their position with our company. As a result, our Chief Executive Officer received the largest grant, our Chief Investment Officer received the second largest grant and the remainder of our Named Executive Officers, other executive officers and employees each received a lesser number of DERs.

For all years prior to 2011, there have been several grants awarded under the DER Plan to various officers and employees in an aggregate of 582,000 DERs. Of this, Mr. Lloyd McAdams received grants totaling 121,000 DERs; Mr. Joseph E. McAdams received grants totaling 92,500 DERs; Mr. Thad M. Brown and Ms. Bistra Pashamova each received grants totaling 62,500 DERs; and Mr. Charles J. Siegel received grants totaling 61,500 DERs. At December 31, 2011, these grants were still outstanding.

For the year ended December 31, 2011, there were no grants awarded to any of our officers and employees under the DER Plan.

Following the Externalization as of December 31, 2011, grants of DERs under the DER Plan may only be awarded to our Chief Executive Officer and Chief Financial Officer. All of our other officers may receive grants of DERs under the 2004 Equity Compensation Plan.

Fringe Benefits

Our company contributed to a cafeteria plan for the benefit of all employees to be used for health, dental and life insurance, parking and other qualified perks. Our company also made employer matching contributions to the 401(k) plan. Benefits were provided to all employees in accordance with practices within the marketplace and were a necessary element of compensation in attracting, motivating and retaining talented employees.

In general, it was the Compensation Committee's practice to provide limited perquisites and other benefits to senior executives, officers and employees. We did not reimburse senior executives, officers and employees for automobiles, clubs, financial planning or items of a similar nature. The Compensation Committee periodically reviewed the levels of perquisites and other benefits provided to employees in light of market practices and within the context of the total compensation program.

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Change in Control Provisions

Various executive officers and employees, including our Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Executive Vice President and other senior executives and key employees, had either change in control provisions in their employment agreements or have entered into Change in Control and Arbitration Agreements with our company. These provisions or agreements granted these officers and employees certain compensation and accelerated vesting of equity awards in the event a change in control occurs. Following our entry into the Management Agreement effective as of December 31, 2011 and in connection with the Externalization, we terminated the employment agreements with our Chief Executive Officer, Chief Investment Officer and Executive Vice President. Consequently, the change in control provisions within those agreements also terminated. For our other officers, we amended the existing Change in Control and Arbitration Agreements to provide that should a Change in Control (as defined in the amended Change in Control and Arbitration Agreements) occur, each of these officers will receive from us certain severance and other benefits based upon their total compensation and benefits as of December 31, 2011.

Other Factors and Considerations

Basis for Using Different Forms of Equity Awards for Long-Term Incentive Compensation

In October 2005, our board decided that we would utilize restricted stock instead of stock options in the future as a means of realizing long-term incentive compensation. Prior to October 2005, we granted stock options to our senior executives, officers and employees as a means of realizing long-term incentive compensation. In December 2005, our board authorized the immediate vesting of all our then-outstanding common stock options. No other terms of the outstanding common stock options were modified. The decision to accelerate the vesting of the common stock options was based upon the conclusion that the outstanding common stock options were currently not achieving management's employee motivation and retention goals because the strike prices of the outstanding common stock options were in excess of the fair market value of the underlying common stock.

In October 2005, our board approved the grant of 200,780 shares of restricted stock to several of our employees under our 2004 Equity Compensation Plan. The closing price of our common stock on the grant date was \$7.72. The restricted stock vests 10% per year on each anniversary date for a ten-year period and shall also vest immediately upon the death of the grantee or upon the grantee reaching age 65. Each grantee shall have the right to sell 40% of the restricted stock any time after such shares have vested. The remaining 60% of such vested restricted stock may not be sold until after termination of employment with us.

In October 2006, our board approved a grant of an aggregate of 197,362 shares of performance-based restricted stock to several of our officers and employees under our 2004 Equity Compensation Plan. Such grant was made effective on October 18, 2006. The closing price of our common stock on the effective date of the grant was \$9.12. The shares will vest in equal annual installments over three years provided that the annually compounded rate of return on our common stock, including dividends, exceeds 12%. If the annually compounded rate of return does not exceed 12%, then the shares will vest on the anniversary date thereafter when the annually compounded rate of return exceeds 12%. If the annually compounded rate of return does not exceed 12% within ten years after the effective date of the grant, then the shares will be forfeited. The shares will fully vest within the ten-year period upon the death of a grantee. Upon vesting, each grantee shall have the right to sell 40% of the restricted stock any time after such shares have vested. The remaining 60% of such vested restricted stock may not be sold, transferred or pledged until after termination of employment with us or upon the tenth anniversary of the effective date. To date, none of these shares have vested.

Timing of Grants of Common Stock

It is our practice to use the closing price on the NYSE on the actual grant date when determining the fair market value of common stock on the grant date. The grant dates used are usually the dates when our board approved the grants or when our board set an effective grant date (usually within a short period of time after approval).

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Deferred Compensation Plan

Prior to the Externalization, the Anworth Mortgage Asset Corporation Deferred Compensation Plan, or the Deferred Compensation Plan, permitted eligible officers to defer the payment of all or a portion of their cash compensation that otherwise would be in excess of the \$1 million annual limitation on deductible compensation imposed by Section 162(m) of the Code. Under this limitation, compensation paid to our Named Executive Officers was not deductible by us for income tax purposes to the extent the amount paid to any such officer exceeded \$1 million in any calendar year, unless such compensation qualified as performance-based compensation under Section 162(m).

Following our entry into the Management Agreement effective as of December 31, 2011 and in connection with the Externalization, we terminated the Deferred Compensation Plan as of December 31, 2011 and, in accordance with the terms of the Deferred Compensation Plan, our board approved and authorized the distribution of the amount due to Mr. Lloyd McAdams of \$472,324, and such amount was paid in full on January 30, 2012.

Executive Management's Involvement in Compensation Policies

During 2011, the Chief Executive Officer was responsible for all salary adjustments and additional compensation payments for all employees other than Named Executive Officers and other executive officers. Adjustments to the Chief Executive Officer's salary and additional cash compensation other than those subject to the 2002 Incentive Plan and the Chief Executive Officer's employment agreement, as amended, were effective only after approval by the Compensation Committee. The Compensation Committee monitored the total cost of the various compensation arrangements annually when it reviewed the Summary Compensation Table and other related tables as disclosed in the annual proxy statement. Following our entry into the Management Agreement effective as of December 31, 2011 and in connection with the Externalization, as our company no longer has any employees, the Chief Executive Officer is no longer responsible for any compensation arrangements. The Chief Executive Officer may submit to the Compensation Committee his recommendations for any equity grants.

Accounting and Tax Considerations of Different Forms of Compensation

Deductibility of Executive Compensation

Prior to the Externalization, the Compensation Committee periodically reviewed the potential implications of Section 162(m) of the Code. This section precludes a public corporation from taking a tax deduction for individual compensation in excess of \$1 million for its named executive officers unless the compensation is performance-based within the meaning of Section 162(m). Although the Compensation Committee considered various alternatives for preserving the deductibility of compensation payments, the Compensation Committee reserved the right to award compensation to the executives that may not qualify under Section 162(m) as deductible compensation.

Other Tax and Accounting Implications

Section 409A of the Code adopted under the American Jobs Creation Act of 2004 has significantly changed the tax rules applicable to nonqualified deferred compensation arrangements. We believe that we are operating in good faith compliance with the statutory provisions which were effective January 1, 2005 and the final regulations which became effective January 1, 2009.

In accordance with Financial Accounting Standards Board Accounting Standard Codification 718-10, any compensation cost relating to share-based payments is recognized in the financial statements. Restricted stock is expensed over the vesting periods.

Table of Contents**Executive Compensation and Related Matters**

The following table provides certain summary information concerning the compensation earned by our Principal Executive Officer, Principal Financial Officer and each of our three other most highly compensated executive officers, or the Named Executive Officers, who were serving as executive officers as of December 31, 2011 and whose aggregate total compensation was in excess of \$100,000 for services rendered in all capacities to us and our subsidiaries for the fiscal years ended December 31, 2011, 2010 and 2009:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary \$(1)	Bonus \$(2)	Stock Awards \$(3)	Non-Equity Incentive Comp. \$(4)	Change in Pension Value and Non- Qualified Deferred Comp. Earnings \$(5)	All Other Comp. \$(6)(7)	Total \$(8)
Lloyd McAdams Principal Executive Officer	2011	944,833	720,000	482,247	1,446,742	56,501	516,219	4,166,542
	2010	925,000	700,000	418,909	1,256,727	50,949	458,145	3,809,730
	2009	925,000	400,000	788,941	2,366,825	53,296	418,873	4,952,935
Thad M. Brown Principal Financial Officer	2011	280,758	122,000	0	0	0	92,474	495,232
	2010	275,000	113,000	0	0	0	90,176	478,176
	2009	275,000	88,000	0	0	0	103,325	466,325
Joseph E. McAdams Chief Investment Officer	2011	715,114	960,000	394,566	1,183,698	0	343,595	3,596,973
	2010	700,000	850,000	342,744	1,028,231	0	294,317	3,215,292
	2009	700,000	845,000	525,963	1,577,883	0	265,104	3,913,950
Charles J. Siegel Senior VP-Finance	2011	259,537	111,200	0	0	0	91,534	462,271
	2010	250,000	103,000	0	0	0	89,956	442,956
	2009	250,000	80,000	0	0	0	103,325	433,325
Bistra Pashamova Senior VP/Portfolio Manager	2011	280,758	735,000	0	0	0	92,474	1,108,232
	2010	275,000	650,000	0	0	0	90,176	1,015,176
	2009	275,000	650,000	0	0	0	103,325	1,028,325

- (1) Salaries for Messrs. Lloyd McAdams and Joseph E. McAdams were in accordance with their employment agreements through December 31, 2011. The salaries for the three other Named Executive Officers were recommended by the Chief Executive Officer (taking into account their individual performance, experience and level of responsibility), subject to approval by the Compensation Committee.
- (2) For 2011, 2010 and 2009, these officers received additional compensation paid in cash based on their individual performance and such other criteria as the Compensation Committee deemed appropriate. See page 18 under the heading "Discretionary Cash Compensation" for a more detailed description of how additional compensation is determined.
- (3) At the end of our 2011 fiscal year, Messrs. Lloyd McAdams and Joseph E. McAdams received 76,791 and 62,829 shares of common stock, respectively, in accordance with the terms of their employment agreements. At the end of our 2010 fiscal year, Messrs. Lloyd McAdams and Joseph E. McAdams received 59,844 and 48,963 shares of common stock, respectively, in accordance with the terms of their employment agreements. At the end of our 2009 fiscal year, Messrs. Lloyd McAdams and Joseph E. McAdams received 112,348 and 74,899 shares of common stock, respectively, in accordance with the terms of their employment agreements. The grant date fair value of these awards are included under "Stock Awards" in the table above and also are shown and further described in "Grants of Plan-Based Awards" on page 25.
- (4) There were no payments made in 2011, 2010 and 2009 under the 2002 Incentive Plan due to the negative incentive compensation accrual carry forward under that plan. At the end of our 2011, 2010 and 2009 fiscal years, the amounts shown for Messrs. Lloyd McAdams and Joseph E. McAdams represent additional incentive compensation received in cash in accordance with the terms of their employment agreements.

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- (as described on pages 28 and 29).
- (5) Our company does not provide any pension benefits to any of its officers and employees. In a prior year, Mr. Lloyd McAdams voluntarily deferred a portion of his cash compensation. The amount in the table above represents the interest calculated on the amount deferred. The amount deferred accrued interest each year at a rate equal to the amount of dividends paid to common stockholders for the year divided by the average common stock price for the year. In 2011, the common stock dividends for the year totaled \$0.94 and the average common stock price for the year was \$6.92. In 2010, the common stock dividends for the year totaled \$0.97 and the average common stock price for the year was \$6.95. In 2009, the common stock dividends for the year totaled \$1.18 and the average common stock price for the year was \$6.90. At December 31, 2011, the Deferred Compensation Plan was terminated and the amount due Mr. Lloyd McAdams was paid in full on January 30, 2012.
- (6) Other compensation includes dividends paid in 2011, 2010 and 2009 on all restricted stock previously granted to all Named Executive Officers and stock previously granted in connection with the performance-based bonus pool of the employment agreements for Messrs. Lloyd McAdams and Joseph E. McAdams. In 2011, the dividends paid on all of these stock grants were as follows: Mr. Lloyd McAdams: \$402,479; Mr. Joseph E. McAdams: \$256,645; and to each of Mr. Thad M. Brown, Mr. Charles J. Siegel and Ms. Bistra Pashamova: \$33,724. In 2010, the dividends paid on all of these stock grants were as follows: Mr. Lloyd McAdams: \$357,275; Mr. Joseph E. McAdams: \$217,342; and to each of Mr. Thad M. Brown, Mr. Charles J. Siegel and Ms. Bistra Pashamova: \$34,801. In 2009, the dividends paid on all of these stock grants were as follows: Mr. Lloyd McAdams: \$302,053; Mr. Joseph E. McAdams: \$176,015; and to each of Mr. Thad M. Brown, Mr. Charles J. Siegel and Ms. Bistra Pashamova: \$42,335.
- (7) For all years prior to 2011, there were several grants awarded under the DER Plan to various officers and employees in an aggregate of 582,000 DERs. Of this, Mr. Lloyd McAdams received grants totaling 121,000 DERs; Mr. Joseph E. McAdams received grants totaling 92,500 DERs; Mr. Thad M. Brown and Ms. Bistra Pashamova each received grants totaling 62,500 DERs; and Mr. Charles J. Siegel receive grants totaling 61,500 DERs. At December 31, 2011, these grants were still outstanding. For the year ended December 31, 2011, there were no grants awarded to various officers and employees under the DER Plan. The amounts received during 2011, 2010 and 2009 on the DERs are also included in Other compensation and represent the difference between the totals reported as All Other Compensation in the table above and the amounts shown in footnote 6 above. See page 20 for a more detailed description of how DER grants are determined.

Table of Contents**Grants of Plan-Based Awards**

The following grants of plan-based awards were issued to our Named Executive Officers during the fiscal year ended December 31, 2011:

Name	Grant Date	Non-Plan Stock Awards: Number of Shares of Stock or Units (#)	Exercise or Base Price of Stock Awards (\$/Sh)	Grant Date Fair Value of Stock Awards \$(1)
Lloyd McAdams Chief Executive Officer	12/30/11	76,791	6.28	482,247
Thad M. Brown Chief Financial Officer	N/A	0	0	0
Joseph E. McAdams Chief Investment Officer	12/30/11	62,829	6.28	394,566
Charles J. Siegel Senior VP-Finance	N/A	0	0	0
Bistra Pashamova VP and Portfolio Manager	N/A	0	0	0

- (1) These amounts represent the shares of common stock granted to Messrs. Lloyd McAdams and Joseph E. McAdams, respectively, in accordance with the terms of their employment agreements. As the stock awards vested immediately, the grant date fair value represents the number of shares of common stock multiplied by the closing price of our common stock on the date of the grant.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

The following table provides information with respect to our Named Executive Officers concerning outstanding equity awards held by them at December 31, 2011:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards			Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)(1)	Option Exercise Price (\$)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That have Not Vested (\$)(3)
Lloyd McAdams	0	N/A	N/A	38,377	241,008
Thad M. Brown	38,700	13.80	5/1/2013	0 7,772 16,447	0 48,808 103,287
Joseph E. McAdams	54,000 75,000 82,900	9.45 11.20 13.80	1/21/2012 10/4/2012 5/1/2013	0 0 0 10,367 27,412	0 0 0 65,105 172,147
Charles J. Siegel	5,000	9.72	7/19/2015	0 7,772 16,447	0 48,808 103,287
Bistra Pashamova	30,000 33,100	11.20 13.80	10/4/2012 5/1/2013	0 0 7,772 16,447	0 0 48,808 103,287

- (1) The option awards in the above table list the number of securities underlying unexercised options that are exercisable, the option exercise price and the option exercise date. All of these options have now been vested. In December 2005, our board authorized the immediate vesting of all of our then-outstanding common stock options. No other terms of the outstanding common stock options were modified. The decision to accelerate the vesting of the common stock options was based upon the conclusion that the outstanding common stock options were currently not achieving management's employee motivation and retention goals because the strike prices of the outstanding common stock options were in excess of the fair market value of the underlying common stock. There were no stock options granted in 2011. On December 27, 2010, Mr. Lloyd McAdams willfully surrendered stock options aggregating 219,225 underlying shares of common stock with a weighted average exercise price of \$12.143.
- (2) For each Named Executive Officer, the market value of the number of shares of restricted stock that have not vested is based on the closing price of our common stock as of December 31, 2011. These shares represent the portions of the October 2005 (first number in column for each Named Executive Officer) and October 2006 (second number in column for each Named Executive Officer) restricted stock grants that have not vested. The terms of these grants are more fully described on page 21 of this proxy statement.
- (3) The market value of the stock awards is based on the number of unvested shares multiplied by the closing price of \$6.28 of our common stock on December 30, 2011.

Table of Contents**Option Exercises and Stock Vested**

The following table provides information with respect to our Named Executive Officers concerning option exercises and stock vested as of December 31, 2011:

OPTION EXERCISES AND STOCK VESTED

Name	Option Awards		2011 Stock Awards(1)	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Lloyd McAdams	0	0	0	0
Thad M. Brown	0	0	1,943	12,688
Joseph E. McAdams	0	0	2,590	16,913
Charles J. Siegel	0	0	1,943	12,688
Bistra Pashamova	0	0	1,943	12,688

- (1) The stock awards that were vested during 2011 relate to the restricted stock that was granted on October 27, 2005. In accordance with the terms of this award, 10% vests on each anniversary date of the effective date of the grant. The closing price of our common stock on this anniversary date in 2011 was \$6.53. This price multiplied by the number of shares that vested results in the value realized on vesting.

Pension Benefits

Our company does not provide any pension benefits to any of our officers or employees.

Non-Qualified Deferred Compensation

The following table provides information with respect to non-qualified deferred compensation paid to our Named Executive Officers during the fiscal year ended December 31, 2011:

NON-QUALIFIED DEFERRED COMPENSATION

Name	Aggregate Earnings in Last FY (\$)	Aggregate Balance at Last FY (\$)
Lloyd McAdams	56,501	472,324
Thad M. Brown	0	0
Joseph E. McAdams	0	0
Charles J. Siegel	0	0
Bistra Pashamova	0	0

Our board designated the eligible officers who could have participated in the Deferred Compensation Plan (which is more fully described on page 22 of this proxy statement) and had designated all of our executive officers as those who may participate in this plan. Mr. Lloyd McAdams was the only officer who elected to defer compensation. This had been done in a prior year. The amount deferred accrued interest each year at a rate equal to the amount of dividends paid to common stockholders for the year divided by the average common stock price for the year. In 2011, the common stock dividends for the year totaled \$0.94 per share and the average common stock price for the year was \$6.92. This resulted in an accrual for 2011 of \$56,501 (this entire amount is included in the Summary Compensation Table). Including this amount, the aggregate balance of the amount deferred for Mr. Lloyd McAdams at December 31, 2011 was \$472,324.

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Following our entry into the Management Agreement effective as of December 31, 2011 and in connection with the Externalization, we terminated the Deferred Compensation Plan as of December 31, 2011 and, in accordance with the terms of the Deferred Compensation Plan, our board approved and authorized the distribution of the amount due to Mr. Lloyd McAdams of \$472,324, and such amount was paid in full on January 30, 2012.

Equity Compensation Plan Information

The following table provides information as of December 31, 2011 with respect to our common stock issuable under our equity compensation plans:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders(1)	592,480	\$ 12.535	573,996
Equity compensation plans not approved by security holders(2)	N/A	N/A	N/A
Total	592,480	\$ 12.535	573,996

- (1) In May 2004, our stockholders adopted the Anworth Mortgage Asset Corporation 2004 Equity Compensation Plan, or the Plan, which amended and restated our 1997 Stock Option and Awards Plan. The Plan authorized our board or a committee of our board to grant equity and equity-based awards for up to 3,500,000 of the outstanding shares of our common stock. The Plan does not provide for automatic annual increases in the aggregate share reserve or the number of shares remaining available for grant. On November 7, 2005, we filed a registration statement on Form S-8 to register an aggregate of 3,500,000 shares of our common stock, which may be issued pursuant to the Plan.
- (2) Our company has not authorized the issuance of its equity securities under any plan not approved by our stockholders.

Employment Agreements

Pursuant to the terms of their employment agreements, during 2011, Mr. Lloyd McAdams received an annual base salary of approximately \$945 thousand, Mr. Joseph E. McAdams received an annual base salary of approximately \$715 thousand and Ms. Heather U. Baines received an annual base salary of \$62 thousand.

Under the terms of the employment agreements, a long-term equity incentive structure was established for Messrs. Lloyd McAdams and Joseph E. McAdams. They were eligible to participate in a performance-based bonus pool that was funded based on our Company's return on average equity, or ROAE. ROAE was calculated as the twelve-month GAAP net income available to common stockholders, excluding the effect of depreciation, preferred stock dividends, gains/losses on asset sales and impairment charges, divided by the average stockholder equity less goodwill and preferred stockholder equity. The Compensation Committee of our board, or the Compensation Committee, evaluated various measures and factors of performance in developing this structure and, in its view, ROAE was determined to be the single best indicator of our overall performance and therefore of value creation for our stockholders. This is in part due to the fact that ROAE is a metric of our performance that has been calculated and reported on a consistent basis since our inception in 1998.

As structured by the Compensation Committee, the aggregate amount of this performance-based bonus pool that was available for distribution ranged annually based upon our ROAE in accordance with the following:

if our ROAE was 0% or less, no performance-based bonus was paid.

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if our ROAE was greater than 0% but less than 8%, a bonus pool of up to \$500 thousand was available in the aggregate.

if our ROAE was 8% or greater, then the bonus pool available to be paid to both executives in the aggregate equaled \$500 thousand plus 10% of the first \$5 million of excess return and 6% of the amount of the excess return greater than \$5 million.

As structured by the Compensation Committee, the aggregate amount of this performance-based bonus pool available for distribution could have ranged annually based upon the ROAE. If the ROAE was 0% or less, no performance-based bonus was paid. If the ROAE was greater than 0% but less than 8%, a bonus pool of up to \$500,000 was available in the aggregate. If the ROAE was 8% or greater, then the bonus pool available to be paid to both executives in the aggregate was \$500,000 plus 10% of the first \$5 million of excess return and 6% of the amount of the excess return greater than \$5 million. The Compensation Committee had the discretionary right to adjust downward the amount available for distribution from the bonus pool by as much as 10% in any given year, based upon its assessment of factors including our leverage, stability of book value of the common stock and price per share of our common stock relative to other industry participants. Of the aggregate amount available for distribution from the bonus pool, the Compensation Committee based annual bonus allocation to each of Messrs. Lloyd McAdams and Joseph E. McAdams on its assessment of the performance of each executive. The performance-based bonus may have provided an incentive to these executives to make higher risk investments in an attempt to earn greater amounts of compensation.

In order to further align the performance of Messrs. Lloyd McAdams and Joseph E. McAdams with our long-term financial success and the creation of stockholder value, the Compensation Committee also determined that with respect to 2008 and each year thereafter, 25% of the annual performance-based bonus amount allocated to be distributed to an executive over \$100,000 was to have been paid in shares of common stock. In addition, neither of the executives was permitted to sell or otherwise transfer these shares during such person's employment with our company until the value of his respective stock holdings in our company exceeded a seven and one-half times multiple of his base compensation and, once this threshold was met, only to the extent that the value of such holdings exceeded that multiple.

For the year ended December 31, 2011, the ROAE (as described above) was approximately 13.63%, based on the adjusted GAAP net income available to common stockholders (as described above) of approximately \$124.2 million, divided by the average stockholders' equity (as described above) of approximately \$911.2 million. This ROAE produced an excess return of approximately \$51.3 million. Based on this information, the performance-based bonus pool (as described above) was approximately \$3.51 million. Of this bonus pool, approximately \$1.447 million was paid to Mr. Lloyd McAdams in cash and \$482 thousand was paid in common stock. Of this bonus pool, approximately \$1.184 million was paid to Mr. Joseph E. McAdams in cash and \$395 thousand was paid in common stock.

The Compensation Committee, in its discretion, could have provided additional compensation to each of Messrs. Lloyd McAdams and Joseph E. McAdams beyond the annual performance-based additional cash compensation earned under the incentive compensation structure in their employment agreements. This additional compensation could have been provided in consideration of our company's execution of our business and strategic plan. For the year ended December 31, 2011, additional compensation of \$720 thousand was paid to Mr. Lloyd McAdams and \$960 thousand was paid to Mr. Joseph E. McAdams.

Following our entry into the Management Agreement effective as of December 31, 2011 and in connection with the Externalization, the employment agreements for Messrs. Lloyd McAdams and Joseph E. McAdams and Ms. Baines were terminated as of December 31, 2011.

Table of Contents**Change in Control and Arbitration Agreements**

In June 2006, we entered into Change in Control and Arbitration Agreements with our Chief Financial Officer (Mr. Thad M. Brown), Senior Vice President-Finance (Mr. Charles J. Siegel), Senior Vice President-Portfolio Manager (Ms. Bistra Pashamova) and our Vice President-Portfolio Manager (Mr. Evangelos Karagiannis), as well as certain of our other officers and employees. Our board determined that, in the event of a change in control of our company, as defined below, it would be imperative for us and our board to be able to receive and rely upon these employees' advice, if requested, as to the best interests of our company and its stockholders without concern that these employees might be distracted by the personal uncertainties and risks created by any such possible transactions. Following our entry into the Management Agreement effective as of December 31, 2011 and in connection with the Externalization, we amended the existing Change in Control and Arbitration Agreements to provide that should a Change in Control (as defined in the amended Change in Control and Arbitration agreements) occur, each of these officers will receive from us certain severance and other benefits valued as of December 31, 2011.

The Change in Control and Arbitration Agreements grant these officers and employees, in the event that a change in control occurs, a lump sum payment equal to (i) 12 months annual base salary in effect on December 31, 2011, plus (ii) the average annual incentive compensation received for the two complete fiscal years prior to December 31, 2011, and plus (iii) the average annual bonus received for the two complete fiscal years prior to December 31, 2011, as well as all fringe benefits for a period of 12 months following termination of employment with us. The Change in Control and Arbitration Agreements also provide for immediate vesting of all equity awards granted to these officers and employees upon a change in control.

A Change in Control, as defined in the Change in Control and Arbitration Agreements, means the first to occur of any of the following: (a) any person or persons acting as a group (other than our company or any trustee or other fiduciary holding securities under an employee benefit plan of our company) being the beneficial owner, directly or indirectly, of securities of our company representing more than 50% of the combined voting power of our company's then outstanding securities; or (b) a change in the composition of our board; or (c) the effective date of any merger or consolidation of our company with any other corporation or entity other than (i) a merger or consolidation which would result in the voting securities of our company outstanding immediately prior thereto continuing to represent in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of our company, at least 65% of the combined voting power of the voting securities of our company or such surviving entity outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of our company in which no person acquires more than 35% of the combined voting power of our company's then outstanding securities, or (iii) a merger or consolidation of our company with one or more persons that are related to our company immediately prior to the consolidation or merger; or (d) the sale or disposition by our company of all or substantially all of our company's assets, to one or more persons that are not related to our company immediately prior to the sale or transfer. The foregoing summary of the terms and conditions of the Change in Control and Arbitration Agreements is qualified in its entirety by reference to the Change in Control and Arbitration Agreements, which have been filed as exhibits to our company's reports pursuant to the Exchange Act.

The Change in Control and Arbitration Agreements for Messrs. Thad M. Brown and Charles J. Siegel and Ms. Bistra Pashamova were amended as noted previously. The closing market price of our common stock at December 31, 2011 was \$6.28. The following reflects the amounts they each would be paid if a change in control occurred on December 31, 2011:

	Thad M. Brown	Charles J. Siegel	Bistra Pashamova
Base salary	\$ 283,000	\$ 258,000	\$ 283,000
Average bonus	117,500	107,100	692,500
Fringe benefits	15,480	15,480	10,800
Vesting of equity awards	152,095	152,095	152,095
Total:	\$ 568,075	\$ 532,675	\$ 1,138,395

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COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. The principal management executive involved in determining compensation and in discussing these issues with the Compensation Committee is the Chief Executive Officer. His involvement is discussed in the Compensation Discussion and Analysis section of this proxy statement (see page 22).

Based on this review and discussion, the Compensation Committee recommended to our board of that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Annual Report on Form 10-K.

Respectfully Submitted by the Compensation
Committee of the Board of Directors,

Charles H. Black

Lee A. Ault III

Joe E. Davis

Robert C. Davis

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As of March 26, 2012, the record date of the Annual Meeting, there were 136,072,545 shares of our common stock outstanding. The following table sets forth certain information known to us with respect to the beneficial ownership of our common stock as of March 26, 2012 by (i) each of our directors, (ii) each of our Named Executive Officers, (iii) each person who is known to us to beneficially own more than 5% of our common stock and (iv) all of our directors and executive officers as a group. The number of shares beneficially owned is determined under rules of the SEC and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and any shares which the individual has the right to acquire within 60 days of March 26, 2012 through the exercise of any stock option or other right. Unless otherwise noted, we believe that each person has sole investment and voting power (or shares or controls such powers with either his or her spouse or immediate family member) with respect to the shares set forth in the following table:

Beneficial Owner	Common Stock Beneficially Owned(1)	Percent of Class
Directors and Named Executive Officers		
Lloyd McAdams(2)	1,261,944	0.93%
Thad M. Brown(3)	74,577	*
Joseph E. McAdams(4)	619,399	*
Charles J. Siegel(5)	47,601	*
Bistra Pashamova(6)	98,977	*
Lee A. Ault III(7)	64,100	*
Charles H. Black(8)	44,474	*
Joe E. Davis(9)	37,682	*
Robert C. Davis	30,000	*
All Directors and Executive Officers as a Group (11 Persons)(10)	2,439,831	1.79%
5% Stockholders		
None	0	0%

* Less than 1%

- (1) The amounts shown do not include shares of our Series B Preferred Stock, which are convertible into shares of our common stock at a current conversion rate of 3.6714. A table which details the beneficial ownership of our Series A Preferred Stock and Series B Preferred Stock is shown after these footnotes.
- (2) Includes (i) 1,165,744 shares held by Mr. Lloyd McAdams and Ms. Heather U. Baines, (ii) 62,500 shares which Mr. McAdams owns individually and in which Ms. Baines has no beneficial interests, and (iii) 33,700 shares owned by the McAdams Foundation, of which Mr. Lloyd McAdams is a director. Mr. McAdams shares voting and investment power over the shares held by the Foundation with Mr. Joseph E. McAdams and disclaims any beneficial interest in the shares held by this entity.
- (3) Includes 38,700 shares subject to stock options exercisable within 60 days of March 26, 2012.
- (4) Includes 157,900 shares subject to stock options exercisable within 60 days of March 26, 2012. Includes 33,700 shares owned by the McAdams Foundation, of which Mr. Joseph E. McAdams is a director. Mr. McAdams shares voting and investment power over the shares held by the Foundation with Mr. Lloyd McAdams and disclaims any beneficial interest in the shares held by this entity.
- (5) Includes 5,000 shares subject to stock options exercisable within 60 days of March 26, 2012.
- (6) Includes 63,100 shares subject to stock options exercisable within 60 days of March 26, 2012.
- (7) Includes 22,100 shares subject to stock options exercisable within 60 days of March 26, 2012.
- (8) Includes 22,100 shares subject to stock options exercisable within 60 days of March 26, 2012.
- (9) Includes 22,100 shares subject to stock options exercisable within 60 days of March 26, 2012.
- (10) Each of our directors and officers may be reached at 1299 Ocean Avenue, Second Floor, Santa Monica, California 90401.

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As of March 26, 2012, the record date of the Annual Meeting, there were 1,875,500 shares of our Series A Cumulative Preferred Stock and 1,151,560 shares of our Series B Cumulative Convertible Preferred Stock outstanding. The following table sets forth certain information known to us with respect to the beneficial ownership of our Series A Cumulative Preferred Stock and Series B Cumulative Convertible Preferred Stock as of that date by (i) each of our directors, (ii) each of our Named Executive Officers, and (iii) all of our directors and executive officers as a group. We have omitted from the following table those directors and Named Executive Officers who do not beneficially own shares of our Series A Cumulative Preferred Stock or Series B Cumulative Convertible Preferred Stock. The number of shares beneficially owned is determined under rules of the SEC and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and any shares which the individual has the right to acquire within 60 days of March 26, 2012 through the exercise of any stock option or other right. Except under certain circumstances, both our Series A Cumulative Preferred Stock and Series B Cumulative Convertible Preferred Stock are non-voting equity securities. Our Series B Cumulative Convertible Preferred Stock is convertible into shares of our common stock. Unless otherwise noted, we believe that each person has sole investment power (or shares or controls such powers with either his or her spouse or immediate family member) with respect to the shares set forth in the following table:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Directors and Named Executive Officers:			
Series A Cumulative Preferred Stock	Robert C. Davis	7,000	*
Series A Cumulative Preferred Stock	All Directors and Executive Officers as a Group (11 Persons)	7,000	*
Series B Cumulative Convertible Preferred Stock(1)	Joe E. Davis	3,000	*
Series B Cumulative Convertible Preferred Stock(1)	Robert C. Davis	4,000	*
Series B Cumulative Convertible Preferred Stock(1)	All Directors and Executive Officers as a Group (11 Persons)	7,000	*

* Less than 1%

- (1) As of March 26, 2012, our Series B Preferred Stock was convertible at the conversion rate of 3.6714 shares of our common stock per \$25.00 liquidation preference. The conversion rate will be adjusted in any fiscal quarter in which the cash dividends paid to common stockholders results in an annualized common stock dividend yield that is greater than 6.25%. The conversion ratio will also be subject to adjustment upon the occurrence of certain specific events such as a change in control. Our Series B Preferred Stock is convertible into shares of our common stock at the option of the Series B Preferred stockholder at any time at the then prevailing conversion rate. On or after January 25, 2012, we may, at our option, convert, under certain circumstances, each share of Series B Preferred Stock into a number of common shares at the then prevailing conversion rate.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Policies and Procedures for Review and Approval of Related Party Transactions

Our board has established the Code of Conduct. The Code of Conduct outlines the principles, policies and values that govern the activities of our company and it applies to all of our directors, officers and employees. The Code of Conduct outlines our policy on conflicts of interest.

A conflict of interest is defined as any situation in which a director, officer or employee has competing professional or personal interests, which could possibly make it difficult to fulfill his or her duties and responsibilities to our company in an impartial manner. It is specifically required by our Code of Conduct that all of our officers, directors and employees (1) fully disclose to the appropriate parties all actual or perceived conflicts of interest and (2) ensure that duties and responsibilities to our company are handled in such a manner that ensures impartiality.

In addition to the Code of Conduct, we require our directors and executive officers to complete annually a directors' and officers' questionnaire which requires disclosure of any related party transactions. Also, on a quarterly basis, our board reviews all existing related party transactions and any new transactions that are brought to the attention of either management or our board.

On any new related party transactions, if the party involved in the transaction is a member of our board, such member of our board is required to recuse or abstain from involvement in the decision. If the remaining board members ratify the transaction, the Nominating and Corporate Governance Committee will grant a waiver to the Code of Conduct. In the event that such a waiver is granted to any of our officers, we would announce the waiver within four business days on a Form 8-K and the Governance Documents' section of our website.

Management Agreement and Externalization

At our annual stockholders meeting on May 25, 2011, our stockholders approved the entry by us into a Management Agreement, or the Management Agreement, between our company and Anworth Management, LLC, or the Manager, and the externalization of our Company's management function, or the Externalization. We entered into the Management Agreement effective as of December 31, 2011. Our day-to-day operations are now being conducted by the Manager through the authority delegated to it under the Management Agreement and pursuant to the policies established by our board. The Manager is supervised and directed by our board and is responsible for (i) the selection, purchase and sale of our investment portfolio; (ii) our financing and hedging activities; and (iii) providing us with management services. The Manager performs such other services and activities relating to our assets and operations as may be appropriate. In exchange for these services, the Manager receives a management fee paid monthly in arrears in an amount equal to one-twelfth of 1.20% of our Equity (as defined in the Management Agreement).

The Manager commenced performance on December 31, 2011, after which we became an externally-managed REIT. Following the execution of the Management Agreement and on its effective date, the employment agreements of our executives were terminated, and we operate as an entity with officers and directors, but without employees. Our employees became employees of the Manager, and we took such other actions as were reasonably necessary to implement the Management Agreement and the Externalization.

The Management Agreement

Under the terms of the Management Agreement, the Manager is responsible for administering our business activities and day-to-day operations, subject to the supervision and oversight of our board. The material terms of the proposed Management Agreement are described below.

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Management Services

The Management Agreement requires the Manager to oversee our business affairs in conformity with the operating policies and the investment guidelines approved by our board. The Manager at all times will be subject to the supervision and direction of our board, the terms and conditions of the Management Agreement, and such further limitations or parameters as may be imposed from time to time by our board. The Manager would be responsible for (i) the selection, purchase and sale of our investment portfolio, (ii) our financing and hedging activities and (iii) providing us with investment advisory services.

The Manager has not assumed any responsibility other than to render the services called for under the Management Agreement in good faith and is not responsible for any action of our board in following or declining to follow its advice or recommendations, including as set forth in the investment guidelines. The Manager and its affiliates, and the directors, officers, employees, members and stockholders of the Manager and its affiliates, will not be liable to us, our board or our stockholders for any acts or omissions performed in accordance with and pursuant to the Management Agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of their respective duties under the Management Agreement.

We have agreed to indemnify the Manager and its affiliates, and the directors, officers, employees, members and stockholders of the Manager and its affiliates, with respect to all expenses, losses, damages, liabilities, demands, charges and claims in respect of or arising from any acts or omissions of the Manager, its affiliates and the directors, officers, employees, members and stockholders of the Manager and its affiliates, performed in good faith under the Management Agreement and not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their respective duties. The Manager has agreed to indemnify us and our directors, officers and stockholders with respect to all expenses, losses, damages, liabilities, demands, charges and claims in respect of or arising from any acts or omissions of the Manager constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties under the Management Agreement. The Manager will maintain reasonable and customary fidelity insurance coverage.

The Manager is required to refrain from any action that, in its sole judgment made in good faith, (i) is not in compliance with the investment guidelines, (ii) would adversely affect our qualification as a REIT under the Internal Revenue Code or our status as an entity exempted from investment company status under the Investment Company Act, or (iii) would violate any law, rule or regulation of any governmental body or agency having jurisdiction over us or of any exchange on which our securities are listed or that would otherwise not be permitted by our amended and restated certificate of incorporation or bylaws. If the Manager is ordered to take any action by our board, the Manager will notify our board if it is the Manager's judgment that such action would adversely affect such status or violate any such law, rule or regulation or our amended and restated certificate of incorporation or bylaws.

Term and Termination Rights

The Management Agreement has an initial term expiring on December 31, 2013. The Management Agreement will be automatically renewed for one-year terms thereafter unless terminated by either us or the Manager. The Management Agreement does not limit the number of renewal terms. Either we or the Manager may elect not to renew the Management Agreement upon the expiration of the initial term of the Management Agreement or upon the expiration of any automatic renewal terms, both upon 180 days prior written notice to the Manager or us. Any decision by us to not renew the Management Agreement must be approved by the majority of our independent directors. If we choose not to renew the Management Agreement, we will pay the Manager a termination fee, upon expiration, equal to three times the average annual management fee earned by the Manager during the prior 24-month period immediately preceding the most recently completed month prior to the effective date of termination.

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We may only elect not to renew the Management Agreement without cause with the consent of the majority of our independent directors. If we terminate the Management Agreement without cause, we may not, without the consent of the Manager, employ any employee of the Manager or any of its affiliates, or any person who has been employed by the Manager or any of its affiliates at any time within the two year period immediately preceding the date on which the person commences employment with us for two years after such termination of the Management Agreement. In addition, following any termination of the Management Agreement, we must pay the Manager all monthly management fees accruing to the date of termination and any other amounts due.

Furthermore, if we decide not to renew the Management Agreement without cause as a result of the determination by the majority of our independent directors that the management fee is unfair, the Manager may agree to perform its management services at fees the majority of our board determine to be fair, and the Management Agreement will not terminate. The Manager may give us notice that it wishes to renegotiate the fees, in which case we and the Manager must negotiate in good faith, and if we cannot agree on a revised fee structure at the end the 60-day negotiation period following our receipt of the Manager's intent to renegotiate, the agreement will terminate, and we must pay the termination fees described above.

We may also terminate the Management Agreement with 60 days prior written notice for cause, without paying the termination fee, if any of the events constituting cause under the Management Agreement occur, which will be determined by a majority of our independent directors. These events include fraud, embezzlement, gross negligence, failure to provide adequate personnel not cured within a specified time period, material breach of the Management Agreement not cured within a specified time period, and the Manager's bankruptcy or dissolution.

Management Fee and Reimbursement of Expenses

We do not employ personnel. As a result, we will rely on the Manager to administer our business activities and day-to-day operations. The management fee is designed to reimburse the Manager for providing the personnel to perform certain services to us as described above in Management Services. The Manager is also entitled to certain monthly expense reimbursements described below. The management fee is payable monthly in arrears in cash.

Management Fee. We will pay the Manager a management fee monthly in arrears in an amount equal to 1/12 of 1.20% of our Equity (as defined below). The Manager will calculate each monthly installment of the management fee within 15 days after the end of each calendar month, and we will pay the monthly management fee with respect to each calendar month within 5 business days following the delivery to us of the Manager's statement setting forth the computation of the monthly management fee for such month.

Equity equals our month-end stockholders' equity, adjusted to exclude the effect of any unrealized gains or losses included in either retained earnings or other comprehensive income (loss), each as computed in accordance with GAAP.

The Manager will not receive any performance-based incentive compensation pursuant to the terms of the Management Agreement.

Reimbursement of Expenses. We will pay directly, or reimburse the Manager, for all of our operating expenses and the Manager's operating expenses applicable to our company, other than compensation and benefits. Pursuant to the terms of the Management Agreement, we are not responsible for the employment related expenses of the Manager's employees and officers that provide services to us under the Management Agreement.

The Manager

Mr. Lloyd McAdams, our Chairman, Chief Executive Officer and President, is also the manager and a member of the Manager. A trust controlled by Mr. Lloyd McAdams and Ms. Heather U. Baines

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beneficially owns 50% of the outstanding membership interests in the Manager; Mr. Joseph E. McAdams beneficially owns 45% of the outstanding membership interests in the Manager; and Mr. Thad M. Brown, our Chief Financial Officer, owns 5% of the outstanding membership interests in the Manager. The Manager did not pay consideration to us for entering into the Management Agreement with us.

Nothing in the Management Agreement prevents the Manager or any of its affiliates from engaging in other businesses or from rendering services of any kind to any other person or entity, including investment in or advisory service to others investing in any type of real estate investment, other than advising other REITs that invest more than 75% of their assets in United States agency residential mortgage-backed securities. Directors, officers and employees of the Manager may serve as our directors and officers.

Certain of the Manager's officers and certain of our officers are officers or employees of Pacific Income Advisers, or PIA, where they devote a portion of their time. These officers are currently involved, and will continue to be involved, in investing both our assets and mortgage-backed securities and other fixed income assets for institutional clients and individual investors through PIA.

These multiple responsibilities may create conflicts of interest if these officers are presented with opportunities that may benefit both us and the clients of PIA. These officers allocate investments among our portfolio and the clients of PIA by determining the entity or account for which the investment is most suitable. In making this determination, these officers consider the investment strategy and guidelines of each entity or account with respect to acquisition of assets, leverage, liquidity and other factors that our officers determine appropriate. These officers, however, have no obligation to make any specific investment opportunities available to us and the above-mentioned conflicts of interest may result in decisions or allocations of securities that are not in our best interests.

Mr. Lloyd McAdams is also an owner and Chairman of Syndicated Capital, Inc., a registered broker-dealer. Syndicated Capital, Inc. has been authorized by our board to act as an authorized broker on buyback of our common stock. Our officers' service to PIA and Syndicated Capital, Inc. allow them to spend only part of their time and effort managing our company, as they are required to devote a portion of their time and effort to the management of other companies.

Agreements with Pacific Income Advisers, Inc.

On June 13, 2002, we entered into a sublease with PIA, a company owned by a trust controlled by Mr. Lloyd McAdams, our Chairman, Chief Executive Officer and President, and Ms. Heather U. Baines, our Executive Vice President. Under the sublease, as amended on July 8, 2003, we lease approximately 5,500 square feet of office space from PIA and currently pay an annual rate of \$57.46 per square foot in rent to PIA. The sublease runs through June 20, 2012 unless earlier terminated pursuant to the master lease. During 2011, we paid \$326 thousand as office rental to PIA and other rental expenses.

At December 31, 2011, the future minimum lease commitment was as follows (in whole dollars):

Year	2012	Total
Commitment Amount	\$ 158,012	\$ 158,012

In February 2012, our Company signed a new sublease agreement with PIA that expires on June 30, 2022 for approximately 7,300 sq. ft. at its same location. The base monthly rent is \$35,367.80 which shall be increased by 3% per annum beginning on July 1, 2013.

On July 25, 2008, we entered into a new administrative services agreement with PIA which was amended and restated on August 20, 2010. Under this agreement, PIA provides administrative services and equipment to

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us in the nature of human resources, operational support and information technology, and we pay an annual fee of 5 basis points on the first \$225 million of stockholders' equity and 1.25 basis points thereafter (paid quarterly in advance) for those services. The administrative agreement had an initial term of one year and renews for successive one year terms each year thereafter unless either party gives notice of termination at least 90 days before the expiration of the then current annual term. We may also terminate the administrative services agreement upon 30 days' notice for any reason and immediately if there is a material breach by PIA. During the year ended December 31, 2011, we paid fees of \$199 thousand to PIA in connection with this agreement.

Indemnification Agreements

In addition to the indemnification provisions contained in our articles of incorporation and bylaws, we have entered into separate indemnification agreements with each of our directors and officers. We have also entered into separate indemnification agreements with certain employees of the Manager in their capacity as agents of our company. These agreements require us, among other things, to indemnify each such director or officer of our company, or employee of the Manager, to the fullest extent permitted by Maryland law against expenses (including attorneys' fees), judgments, fines and settlements incurred by such individual in connection with any action, suit or proceeding by reason of such individual's status or service as a director, officer or agent of our company (other than liabilities with respect to which such individual receives payment from another source, arising in connection with certain final legal judgments, arising from actions not in good faith and not in a manner such individual reasonably believed to be in or not opposed to the best interests of our company and its stockholders, arising from actions where such individual received an improper personal benefit in money, property or services, arising from any criminal action or proceeding, where such individual had reasonable cause to believe the conduct was unlawful, or in connection with assertions by such individuals not made in good faith or which are frivolous or which we are prohibited by applicable law from paying) and to advance expenses incurred by such individual in connection with any proceeding against such individual with respect to which such individual may be entitled to indemnification by us.

Family Relationships

Mr. Lloyd McAdams and Ms. Heather U. Baines are husband and wife and Messrs. Lloyd McAdams and Joseph E. McAdams are father and son.

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AUDIT COMMITTEE

Audit Committee Report

The following is the report of our company with respect to our company's audited financial statements for 2011, which include the balance sheets as of December 31, 2011 and 2010, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011 and the notes thereto.

Composition. The Audit Committee of our board is comprised of four directors and operates under a written charter adopted by our board. All members of the Audit Committee are financially literate within the meaning of the NYSE rules and are independent as defined in Rule 10A-3 under the Exchange Act and the rules of the NYSE.

Responsibilities. The responsibilities of the Audit Committee include recommending to our board an accounting firm to be engaged as the independent registered public accounting firm. Management has primary responsibility for the internal controls and financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the financial statements in accordance with generally accepted auditing standards and for issuing a report thereon. The Audit Committee's responsibility is to oversee these processes and the activities of the internal audit department.

Review with Management and Independent Registered Public Accounting Firm. The Audit Committee has reviewed the audited financial statements and met separately, and held discussions with, management and McGladrey & Pullen, LLP, our independent registered public accounting firm, for the fiscal year ended December 31, 2011. Management represented to the Audit Committee that the financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee discussed with McGladrey & Pullen, LLP the matters required to be discussed by Statements on Auditing Standards No. 61, Communication with Audit Committee, as amended, and No. 90, Audit Committee Communications.

McGladrey & Pullen, LLP provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and the Audit Committee discussed with McGladrey & Pullen, LLP, the firm's independence.

Conclusion. Based upon the Audit Committee's discussions with management and the independent registered public accounting firm, the Audit Committee's review of the representations of management and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended that our board include the audited financial statements in our company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC.

Respectfully submitted by the Audit
Committee of the Board of Directors,

Joe E. Davis

Lee A. Ault III

Charles H. Black

Robert C. Davis

Table of Contents**Audit and Related Fees**

The following table presents fees for professional audit services rendered by McGladrey & Pullen, LLP for the audit of our company's annual financial statements for the years ended December 31, 2011 and 2010 and fees billed for other services rendered by McGladrey & Pullen, LLP during 2011 and 2010:

	2011	2010
Audit fees	\$ 344,400	\$ 325,500
Audit-related fees	68,500	23,000
Tax fees	0	0
Other fees	0	0
Total:	\$ 412,900	\$ 348,500

Audit-related fees consist primarily of comfort letters and consent opinions related to our stock offerings.

Pre-approval Policies and Procedures

Consistent with SEC policies regarding auditor independence, our Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, the Audit Committee has established policies and procedures regarding pre-approval of all services provided by the independent registered public accounting firm. At the beginning of the fiscal year, the Audit Committee pre-approves the engagement of the independent registered public accounting firm to provide audit services based on fee estimates. The Audit Committee also pre-approves proposed audit-related services, tax services and other permissible services, based on specified project and service details, fee estimates, and aggregate fee limits for each service category. The Audit Committee receives a report at each meeting on the status of services provided or to be provided by the independent registered public accounting firm and the related fees. All of the audit and audit-related fees performed for our company during the fiscal year ended December 31, 2011 were pre-approved by the Audit Committee.

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PROPOSAL NO. 2:

ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

Our company is presenting the following proposal, which gives you as a stockholder the opportunity to vote, on an advisory basis, to approve the compensation paid to our Named Executive Officers by voting for or against the following resolution. While our board intends to carefully consider the outcome of the stockholder vote resulting from this proposal, the final vote will not be binding on us and is advisory in nature.

Resolved, that the stockholders approve the compensation of our company's Named Executive Officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables and the related disclosure contained in this proxy statement set forth under the caption Executive Officers and Compensation beginning on page 14 of this proxy statement.

Our board believes that the compensation paid to our Named Executive Officers provides an appropriate mixture of both cash compensation and long-term compensation (equity awards) to achieve the objectives of attracting, motivating and retaining our Named Executive Officers while achieving the objectives of aligning managements' interests with the interests of our stockholders.

The affirmative vote of the majority of all votes cast on the matter at a meeting at which a quorum is present is necessary to approve the compensation of our company's Named Executive Officers. Votes against and broker non-votes will result in the resolution receiving fewer votes. Our board and Compensation Committee value the opinions that our stockholders express in their votes and will consider the outcome of this vote when considering future executive compensation arrangements as they deem appropriate.

Our board unanimously recommends that you vote FOR approval of the compensation of our Named Executive Officers as disclosed in the Compensation Discussion and Analysis, the compensation tables and the related disclosure contained in this proxy statement set forth under the caption Executive Officers and Compensation beginning on page 14 of this proxy statement. Proxies will be voted FOR approval of this proposal unless otherwise specified.

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PROPOSAL NO. 3:

RATIFICATION OF APPOINTMENT OF MCGLADREY & PULLEN, LLP

AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

McGladrey & Pullen, LLP was recommended by the Audit Committee of our board to act as our company's independent registered public accounting firm for the fiscal year ended December 31, 2012, subject to ratification by the stockholders.

We have been advised by McGladrey & Pullen, LLP that the firm has no relationship with our company or its subsidiaries or affiliates other than that arising from the firm's engagement as auditors, tax advisors and consultants. If the selection of McGladrey & Pullen, LLP is not ratified by the affirmative vote of at least a majority of the shares casting votes on the matter at the meeting, or if prior to the Annual Meeting, McGladrey & Pullen, LLP should decline to act or otherwise become incapable of acting, or if its employment should be otherwise discontinued by our board, then in any such case our board will appoint another independent registered public accounting firm whose employment for any period subsequent to the 2012 Annual Meeting will be subject to ratification by the stockholders at the 2012 Annual Meeting.

A representative of McGladrey & Pullen, LLP is expected to be present in person at the Annual Meeting to make a statement if he or she desires, and to respond to appropriate questions. The principal accountant's report on our company's financial statements for our fiscal years ended December 31, 2011 and December 31, 2010 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

Vote Required

The affirmative vote of a majority of all votes cast on the matter at a meeting at which a quorum is present is necessary to ratify the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm.

Our board unanimously recommends that you vote FOR the ratification of McGladrey & Pullen, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012. Proxies received will be so voted unless stockholders specify otherwise in their proxy.

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OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Exchange Act, our directors, officers and persons holding more than 10% of our common stock are required to file forms reporting their beneficial ownership of our common stock and subsequent changes in that ownership on Form 4 with the SEC within two business days. Such persons are also required to furnish us copies of the forms so filed. Based solely upon a review of copies of such forms filed with us, we believe that during 2011, our officers and directors complied with the Section 16(a) filing requirements on a timely basis, except for the delinquent filings by Messrs. Lloyd McAdams and Joseph E. McAdams in connection with their 2011 year-end compensation paid in common stock on December 30, 2011, and Ms. Heather U. Baines, due to her joint ownership of Mr. Lloyd McAdams' equity holdings.

Expenses of Proxy Solicitation

Brokerage firms and other custodians, nominees and fiduciaries will be requested to forward the proxy materials to beneficial owners and to obtain authorization for the execution of proxies, and we will reimburse such brokerage firms, other custodians, nominees and fiduciaries for reasonable expenses incurred in sending proxy materials to beneficial owners of our common stock. Our directors, officers and employees may solicit proxies by telephone or in person (but will receive no additional compensation for such solicitation). We will bear the expense of this proxy solicitation.

Legal Proceedings

We have no material proceedings to which any of our directors, officers or affiliates, any owner of record or beneficially of more than 5% of any class of our voting securities, or any associate of any such director, officer, affiliate or security holder is a party adverse to us or any of our subsidiaries or has a material interest adverse to us or any of our subsidiaries.

Annual Report

A copy of the annual report to stockholders of our company for the 2011 fiscal year has been mailed concurrently with this proxy statement to all stockholders entitled to notice of and to vote at the Annual Meeting. The annual report is not incorporated into this proxy statement and is not considered proxy solicitation material.

Stockholder Proposals for 2013 Annual Meeting

Proposals of stockholders for consideration at the 2013 Annual Meeting of Stockholders must be received by us no later than the close of business on November 23, 2012, and must comply with the applicable rules of the SEC in order to be included in our proxy statement and proxy relating to the 2013 Annual Meeting of Stockholders pursuant to Rule 14a-8 of the Exchange Act.

In addition, in order for a stockholder proposal outside of Rule 14a-8 of the Exchange Act to come before the 2012 Annual Meeting of Stockholders, proposals must be made in accordance with our Articles of Incorporation, which require appropriate notice to us of the proposal not less than 30 days nor more than 60 days prior to the date of the Annual Meeting of Stockholders. If less than 30 days' notice of the date of the Annual Meeting of Stockholders meeting is given by us, then we must receive notice of the proposal not later than the close of business on the 10th day following the date we first mailed the notice of the meeting. In this regard, notice is given that the 2013 Annual Meeting of Stockholders is expected to be held on May 22, 2013, and therefore we must receive notice of the proposal not before March 23, 2013 but not after April 22, 2013.

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Procedures for Recommending Director Candidates

Stockholders of our company wishing to recommend director candidates to the Nominating and Corporate Governance Committee must submit their recommendations in writing to the committee, c/o the Secretary, Anworth Mortgage Asset Corporation, 1299 Ocean Avenue, Second Floor, Santa Monica, California 90401.

Our Nominating and Corporate Governance Committee will consider nominees recommended by our stockholders provided that the recommendation contains sufficient information for the Nominating and Corporate Governance Committee to assess the suitability of the candidate, including the candidate's qualifications. Candidates recommended by stockholders that comply with these procedures will receive the same consideration that candidates recommended by the Nominating and Corporate Governance Committee receive.

Our Nominating and Corporate Governance Committee makes recommendations to our board concerning candidates for membership as directors, considering such factors as background, skills, expertise, accessibility and availability to serve effectively on our board. This Committee also makes recommendations to our board regarding the nomination of incumbent directors for re-election to our board. Our board then approves a slate of directors to be nominated for election at annual meetings of stockholders.

When selecting directors, our board will review and consider many factors, including those specified in our Corporate Governance Guidelines, which are posted on the Governance Documents section of our website. It considers recommendations from many sources, including members of our board and management. From time to time, we may hire search firms to help identify and facilitate the screening and interview process of director nominees. The Nominating and Corporate Governance Committee has full discretion in considering its nominations to our board.

Deadline and Procedures for Submitting Nominations to the Board

A stockholder wishing to nominate a candidate for election to our board at the next Annual Meeting of Stockholders is required to give written notice addressed to the Secretary, Anworth Mortgage Asset Corporation, 1299 Ocean Avenue, Second Floor, Santa Monica, California 90401, of his or her intention to make such a nomination. The notice of nomination must be made in accordance with our Articles of Incorporation, which require appropriate notice to us of the nomination not less than 30 days nor more than 60 days prior to the date of the Annual Meeting of Stockholders. If less than 30 days' notice of the date of the Annual Meeting of Stockholders is given by us, then we must receive the notice of nomination not later than the close of business on the 10th day following the date we first mailed the notice of the meeting. In this regard, notice is given that the 2013 Annual Meeting of Stockholders is expected to be held on May 22, 2013, and therefore we must receive notice of the proposal not before March 23, 2013 but not after April 22, 2013.

The notice of nomination is required to contain certain information about both the nominee and the stockholder making the nomination, as set forth in our bylaws. In addition, the notice of nomination must include information regarding the recommended candidate relevant to a determination of whether the recommended candidate would be barred from being considered independent under NYSE Rule 303A.02(b), or, alternatively, a statement that the recommended candidate would not be so barred. A nomination which does not comply with the above requirements will not be considered.

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Communications to the Board

All communications to our board, our board committees or any individual director, must be in writing and addressed to them c/o the Secretary, Anworth Mortgage Asset Corporation, 1299 Ocean Avenue, Second Floor, Santa Monica, California 90401. Communications received in writing will be forwarded to the named recipient(s).

March 26, 2012

By Order of the Board of Directors

Thad M. Brown

Secretary

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ANWORTH MORTGAGE ASSET CORPORATION

C/O AMERICAN STOCK TRANSFER AND TRUST COMPANY

6201 15TH AVENUE

BROOKLYN, NY 11219

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

Electronic Delivery of Future PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-of date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

**The Board of Directors recommends you
vote FOR**

the following:

1. Election of Directors **For Against Abstain**

01 Lloyd McAdams

02 Lee A. Ault **For Against Abstain**

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03	Charles H. Black	..	..	..	3 To ratify the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2012.	..	..	..
04	Joe E. Davis	..	..	..				
05	Robert C. Davis	..	..	..				
06	Joseph E. McAdams	..	..	..	NOTE: Such other business as may properly come before the meeting or any adjournment thereof.			

The Board of Directors recommends you vote FOR proposals 2 and 3.

For	Against	Abstain
..	..	..

2 An advisory vote to approve the compensation of our Named Executive Officers.

Yes	No
..	..

Please indicate if you plan to attend this meeting

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

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**ANNUAL MEETING OF STOCKHOLDERS OF
ANWORTH MORTGAGE ASSET CORPORATION**

MAY 23, 2012

Please date, sign and mail your proxy card in the envelope provided as soon as possible.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Annual Report, Notice & Proxy Statement is/ are available at www.proxyvote.com.

**ANWORTH MORTGAGE ASSET CORPORATION
PROXY FOR ANNUAL MEETING OF STOCKHOLDERS ON MAY 23, 2012
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF
DIRECTORS**

The undersigned hereby appoints Lloyd McAdams and Joseph E. McAdams, or either of them, each with full power of substitution, as proxies of the undersigned to attend the Annual Meeting of Stockholders of Anworth Mortgage Asset Corporation, to be held on Wednesday, May 23, 2012 at 10:00 a.m. Pacific Time, and at any adjournments or postponements thereof, and to vote the number of shares the undersigned would be entitled to vote if personally present as indicated on the reverse side.

THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF (A) NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 23, 2012 (B) THE ACCOMPANYING PROXY STATEMENT AND (C) THE ANNUAL REPORT ON THE COMPANY FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011.

THIS PROXY WILL BE VOTED AS SPECIFIED, OR, IF NO CHOICE IS SPECIFIED, WILL BE VOTED FOR THE 6 NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS AND FOR PROPOSALS 2 AND 3.

STOCKHOLDERS ARE URGED TO MARK, DATE, SIGN AND RETURN THIS PROXY IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO POSTAGE IF MAILED WITHIN THE UNITED STATES.

Continued and to be signed on reverse side