

CORPORATE GOVERNANCE GUIDELINES

of

LUMENT FINANCE TRUST, INC.

Lument Finance Trust, Inc. (the “**Company**”) operates within a comprehensive plan of corporate governance for the purpose of defining responsibilities, setting high standards of professional and personal conduct and assuring compliance with such responsibilities and standards. The Company regularly monitors developments in the area of corporate governance. The Company is committed to good business practices, transparency in financial reporting and the highest level of corporate governance. References in these Corporate Governance Guidelines to the Company shall include the Company and, unless the context otherwise dictates, its direct and indirect subsidiaries.

The Company has adopted these Corporate Governance Guidelines which include, among other things a policy regarding stockholder communication with non- management members of the Board of Directors (the “**Board**”) and specifications for director qualification and responsibility.

I. The Board

a. Role of Board and Management

The Company’s business is conducted by its and its subsidiaries’ employees, managers and officers, under the direction of the chief executive officer (the “**CEO**”) and the oversight of the Board, to enhance the long-term value of the Company for its stockholders. The Board is elected by the stockholders to oversee management and to assure that the long-term interests of the stockholders are being served. Both the Board and management recognize that the long-term interests of stockholders are advanced by responsibly addressing the concerns of other persons with a stake in the Company and interested parties including employees, customers, suppliers, the community, government officials and the public at large.

The fundamental role of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its stockholders. In fulfilling that responsibility the directors may reasonably rely on the honesty and integrity of the Company’s management and expert legal, accounting, financial and other advisors.

b. Director Qualification Standards

The Nominating and Corporate Governance Committee is responsible for reviewing with the Board, on an annual basis, the appropriate characteristics, skills and experience required for the Board as a whole and its individual members. In evaluating the suitability of individual candidates (both new candidates and current Board members), the Nominating and Corporate Governance Committee, in recommending candidates for election, and the Board, in approving (and, in the case of vacancies, appointing) such candidates, take into account many factors, including the ability to make independent analytical inquiries, general understanding of marketing, finance and other elements relevant to the success of a publicly-traded company in today’s business environment, experience in the Company’s industry and with relevant social policy concerns, understanding of the Company’s business on a technical level, other board service and educational and professional background. Each candidate nominee must also possess fundamental qualities of intelligence, honesty, good judgment, high ethics and standards of integrity, fairness and responsibility. The Board evaluates each individual in the context of the Board as a

whole, with the objective of assembling a group that can best perpetuate the success of the business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas. In determining whether to recommend a director for re-election, the Nominating and Corporate Governance Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board.

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. Directors should offer their resignation in the event of any significant change in their personal circumstances, including change in their principal job responsibilities that could interfere with the performance of their duties as directors.

C. No Specific Limitation on Other Board Service

The Board does not believe that its members should be prohibited from serving on boards of other organizations and has not adopted any guidelines limiting such activities, except with respect to members serving on the Audit Committee, as described below. However, the Nominating and Corporate Governance Committee and the Board will take into account the nature of and time involved in a director's service on other boards and/or committees in evaluating the suitability of individual director candidates and current directors and making its recommendations to the Company's stockholders.

Due to the demanding nature of service on the Audit Committee, the members of the Audit Committee should carefully consider the number of other audit committees of boards of directors on which they serve. Service on three or more other audit committees of public companies concurrently triggers a Board determination and proxy disclosure that such simultaneous service does not impair the individual's ability to serve on the Company's Audit Committee.

d. Director Responsibilities

The business and affairs of the Company will be managed by or under the direction of the Board, including through one or more of its committees as set forth in the Bylaws and committee charters. Each director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. In addition to its general oversight of management, the Board also performs a number of specific functions, including:

(1) overseeing the conduct of the Company's business, to evaluate whether the business is being properly managed;

(2) reviewing and, where appropriate, approving the Company's major financial objectives, plans and actions;

(3) reviewing and, where appropriate, approving major changes in, and determinations of other major issues respecting, the appropriate auditing and accounting principles and practices to be used in the preparation of the Company's financial statements;

(4) reviewing and, where appropriate, approving major changes in, and determinations under the Company's Code of Business Conduct and Ethics and other Company policies;

- (5) reviewing and, where appropriate, approving actions to be undertaken by the Company that would result in a material change in the financial structure or control of the Company, the acquisition or disposition of any businesses or asset(s) material to the Company or the entry of the Company into any major new line of business;
- (6) assessing major risks facing the Company and reviewing options for their mitigation;
- (7) together with the Compensation Committee, regularly evaluating the performance and, to the extent that the Company is responsible for paying the compensation and/or any other employee benefits of the CEO, approving the compensation of the CEO;
- (8) with the input of the Compensation Committee and the CEO, providing counsel and oversight on the selection, evaluation, development and compensation of principal senior executives;
- (9) planning for succession with respect to the position of CEO and monitoring management's succession planning for other key executives; and
- (10) ensuring that the Company's business is conducted with the highest standards of ethical conduct and in conformity with applicable laws and regulations, and ensuring that the integrity of relationships with customers, suppliers and other stockholders is maintained.

e. Director Independence Standards

At least a majority of the Board and all members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee will at all times be comprised of directors who qualify as independent directors (the "**Independent Directors**") in accordance with applicable rules of the Securities and Exchange Commission (the "**SEC**") and the listing standards of the New York Stock Exchange (the "**NYSE**"), as amended from time to time. The Board performs an analysis, at least annually, as to whether each member of the Board is independent. The Board has adopted the definition of "independence" as described under NYSE Listed Company Manual Section 303A.02.

Subject to NYSE and SEC rules and regulations, the Board shall meet the criteria for independence as affirmatively determined annually by the Board in accordance with the NYSE listing standards and any other applicable laws, rules and regulations regarding independence in effect and applicable to the Company from time to time. A vacancy on the Board or other failure to comply with the foregoing requirements shall not affect the validity of any action taken by the Board.

For a director to be considered independent, the Board must affirmatively determine that the director does not have any direct or indirect material relationship with the Company. In addition, the Board has established guidelines, set forth below, to assist it in determining director independence, which conform to the independence requirements in the NYSE listing requirements. The Board will interpret and, from time to time, modify these guidelines to correspond to any changes in the independence requirements in the NYSE listing requirements. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination, and not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation.

The Board will make and publicly disclose its independence determination for each director when

the director is first elected to the Board and annually thereafter for all nominees for election as directors. If the Board determines that a director who satisfies the NYSE rules is independent even though he or she does not satisfy all of the Company's independence guidelines, this determination will be disclosed and explained in the Company's next proxy statement.

Unless otherwise permitted under the NYSE Listed Company Manual, a director will not be independent if:

(1) The director is, or has been within the last three years, an employee of the Company, or an immediate family member of the director is, or has been within the last three years, an executive officer, of the Company;

(2) The 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 compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

(3) (A) The director is a current partner or employee of a firm that is the Company's internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (D) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time;

(4) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that other company's compensation committee; or

(5) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the 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.

f. Independence of Audit Committee Members

Members of the Audit Committee must also satisfy the definition of "independence" under Rule 10A-3(b)(1) ("**Rule 10A-3**") of the Securities Exchange Act of 1934. Specifically, members of the Audit Committee may not, other than in their capacity as a member of the audit committee, the Board, or any other Board committee:

(1) accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries, other than fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company (provided that such compensation is not contingent in any way on continued service); or

(2) be an "affiliate" of the Company or any of its subsidiaries, as such term is defined in Rule 10A-3. Rule 10A-3 defines "affiliate" to include an executive officer of an affiliate of the Company, a

director who also is an employee of an affiliate, a general partner of an affiliate, and a managing member of an affiliate.

g. Size of Board and Selection Process

The directors are elected each year by the stockholders at the annual meeting of stockholders. Stockholders may propose nominees for consideration by the Nominating and Corporate Governance Committee in accordance with the charter of that committee and the Company's Bylaws. The Board also determines the number of directors from time to time by resolutions adopted by majority vote. Between annual stockholder meetings, the Board may elect directors to serve until the next annual meeting of stockholders.

h. Committees of the Board

The Board has established committees comprised of members of the Board to assist the Board in discharging its responsibilities including but not limited to: (i) the Audit Committee; (ii) the Compensation Committee and (iii) the Nominating and Corporate Governance Committee. The current charters and key practices of certain committees of the Board are published on the Company's website and will be mailed to any stockholder upon written request. The committee chairs report the highlights of their meetings to the full Board following each meeting of the respective committees. The committees occasionally hold meetings in conjunction with the full Board.

i. Compensation

Any executive officer of the Company who also serves on its Board shall not receive additional compensation for his or her service as a director. Senior management of the Company will report once a year to the full Board or the Compensation Committee regarding the status of the Company's non-management director compensation in relation to other U.S. companies of comparable size and the Company's competitors. Such report will include consideration of both direct and indirect forms of compensation to the Company's non-management directors, including any charitable contributions by the Company to organizations in which a non-management director is involved, and will recommend any changes in non-management director compensation.

Director fees are the sole form of compensation that members of the Audit Committee may receive from the Company.

j. Stockholder Communication with the Board

To send communications to the Board, the non-management members as a group, or any of the directors individually, stockholders should contact them in writing at Lument Finance Trust, Inc., c/o Lument Investment Management, 230 Park Avenue, 19th Floor, New York, New York 10169 or by telephone at (212) 588-2150. All communications will be compiled and submitted to the Board or the individual directors on a periodic basis, unless there are safety or security concerns that mitigate against further transmission of the communications, as determined by the Corporate Secretary in consultation with the Company's legal counsel. The Board or individual director so addressed shall be advised of a communication withheld for safety or security reasons as soon as practicable.

k. Board Access to Senior Management

The Board will have complete access to Company management in order to ensure that directors can ask any questions and receive all information necessary to perform their duties. Directors should exercise judgment to ensure that their contact with management does not distract managers from their jobs or disturb the business operations of the Company. Such contact, if in writing, should be copied to the Chief Executive Officer of the Company.

l. Board Access to Independent Advisors

The Board committees may hire independent advisors as set forth in their applicable charters. The Board as a whole shall have access to such advisors and such other independent advisors that the Company retains or that the Board considers necessary to discharge its responsibilities.

m. Board Orientation and Continuing Education of Board Members

The Company provides new directors with a director orientation program to familiarize them with, among other things, the Company's business, strategic plans, significant financial, accounting and management issues, compliance programs, conflicts policies, Code of Business Conduct and Ethics, Corporate Governance Guidelines, principal officers, internal auditors and independent auditors.

The Company will make available to directors continuing education programs, and each director is expected to participate in such programs, as management or the Board determines desirable.

n. Retirement and Term Limits

The Board does not believe that age and term limits on directors' service are appropriate and does not currently maintain any such standards.

II. Board Meetings

a. Director Attendance

A director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. Accordingly, a director is expected to regularly prepare for and attend meetings of the Board and all committees on which the director sits (including separate meetings of non-management directors and the independent directors), with the understanding that, on occasion, a director may be unable to attend a meeting. A director who is unable to attend a meeting is expected to notify the Chairman of the Board or the Chairman of the appropriate committee in advance of such meeting, and, whenever possible, participate in such meeting via teleconference.

In furtherance of our objective to provide investors with open lines of communication to the directors, the Company has adopted a policy that directors will make reasonable efforts to attend annual meetings of stockholders. Directors' attendance at annual meetings can provide investors with an opportunity to communicate with directors about issues affecting the Company. In addition, the Company discloses the number of directors who attend the annual meetings.

b. Setting Board Agenda

The Board shall be responsible for its agenda. At the last Board meeting of each year, the CEO will propose for the Board's approval key issues of strategy, risk and integrity to be scheduled and discussed

during the course of the next calendar year. Before that meeting, the Board will be invited to offer its suggestions. As a result of this process, a schedule of major discussion items for the following year will be established. The CEO or the committee chair, as appropriate, shall determine the nature and extent of information that shall be provided regularly to the directors before each scheduled Board or committee meeting. Directors are urged to make suggestions for agenda items, or additional pre-meeting materials, to the CEO or appropriate committee chair at any time.

C. Advance Receipt of Meeting Materials

Information regarding the topics to be considered at a meeting is essential to the Board's understanding of the business and the preparation of the directors for a productive meeting. To the extent feasible, the meeting agenda and any written materials relating to each Board meeting will be distributed to the directors sufficiently in advance of each meeting to allow for meaningful review of such agenda and materials by the directors. Directors are expected to have reviewed and be prepared to discuss all materials distributed in advance of any meeting.

III. Leadership Development

a. Annual Review of Chief Executive Officer

The Board, or the appropriate committee thereof, with input from the CEO, shall annually establish the performance criteria (including both long-term and short-term goals) to be considered in connection with the CEO's next annual performance evaluation. At the end of each year, the CEO shall make a presentation or furnish a written report to the Board indicating his or her progress against such established performance criteria. Thereafter, with the CEO absent, the Board shall meet to review the CEO's performance. The results of the review and evaluation shall be communicated to the CEO by the Chairman of the Compensation Committee.

b. Succession Planning

The Nominating and Corporate Governance Committee works on a periodic basis with the CEO to review, maintain and revise, if necessary, the Company's succession plan upon the CEO's retirement and in the event of an unexpected occurrence. The CEO shall report annually to the Board on succession planning for the CEO and senior management positions, including a discussion of assessments, leadership development plans and other relevant factors. There should also be available to the Nominating and Corporate Governance Committee, on a continuing basis, the CEO's recommendations regarding his or her successor should he or she be unexpectedly disabled.

IV. Related Party Transactions

The Company gives careful attention to its review and disclosure of "related party" transactions – namely, transactions between the Company or any of its subsidiaries, on the one hand, and its 5% or greater beneficial owners, directors, or members of senior management, as defined by Item 404 of Regulation S-K of the Securities Act of 1933, on the other hand. The Company's treatment of related party transactions is set forth in the Company's Related Party Transaction Policy, a copy of which is available on the Company's website.