

**TWO HARBORS INVESTMENT CORP.
COMPENSATION COMMITTEE CHARTER**

1. Purpose of the Compensation Committee

The Compensation Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of Two Harbors Investment Corp. (the “**Company**”) shall oversee the approval, administration and evaluation of the Company’s compensation plans, policies and programs; review and make recommendations to the Board regarding compensation paid to PRCM Advisers LLC or such other entity as may provide management services to the Company; review the compensation of the Company’s directors and executive officers; review, discuss with the management and recommend to the Board the Compensation Discussion and Analysis (“**CD&A**”) to be included in the Company’s annual proxy statement; and prepare any report on or relating to executive compensation required by the rules and regulations of the Securities and Exchange Commission (the “**SEC**”).

The Committee shall report to the Board on a regular basis and in any event not less than once a year.

2. Composition of the Compensation Committee

The Committee shall be comprised of at least three directors as appointed by the Board, each of whom shall meet the independence requirements under the rules and regulations of the New York Stock Exchange as in effect from time to time and shall be free from any relationship that would interfere with the exercise of his or her independent judgment as a member of the Committee.

The members of the Committee shall be appointed annually by the Board on or prior to the date of the Company’s annual meeting of stockholders and shall serve until their successors are duly appointed by the Board or until their earlier resignation or removal. In connection with the annual appointment of the members of the Committee, the Board shall also select a member of the Committee to serve as its Chairman.

3. Meetings of the Compensation Committee

The Committee shall meet at such times and from time to time as it deems to be appropriate, but not less than three times each year. The Committee may request members of the Company’s management or others to attend meetings and provide pertinent information as necessary. Minutes will be kept for each meeting of the Committee and will be provided to each member of the Board.

4. Responsibilities and Duties of the Compensation Committee

The duties of the Committee shall include the following:

Management Agreement

- Review, on at least an annual basis, (a) the compensation paid to PRCM Advisers LLC or such other entity as may act as the Company’s manager (the “**Manager**”), including a review of the base management fee, expense reimbursements, and all arrangements the Manager has with other entities to share fees paid by the Company; and (b) the compensation paid to any affiliate of Manager or any other related party under any contract or agreement. Such review shall include a review of any and all such compensation paid by comparable entities for comparable services.

- Conduct a review and report to the full Board, on at least an annual basis, regarding the performance of the Manager, and in light of such performance make recommendations to the Board regarding the extension, renegotiation and/or termination of the Manager's contract.
- Recommend to the full Board, as appropriate, any proposed adjustments to the compensation paid to the Manager.

Executive Evaluation and Compensation

- In consultation with senior management, establish the Company's general compensation philosophy and oversee the development, implementation and administration of compensation plans, policies and programs. The Committee shall also review the compensation philosophy of the Manager and its affiliates, to the extent such philosophy affects the incentives, risk-taking and performance of officers and individuals responsible for the Company's management.
- Review and approve corporate goals and objectives of the Company's Chief Executive Officer ("CEO"), evaluate the performance of the CEO in light of those goals and objectives, and (if the CEO receives compensation from the Company) determine the CEO's compensation level based on this evaluation. In determining any long-term incentive component of CEO's compensation, the Committee shall consider, among other factors, the Company's performance and relative stockholder return, the value of similar incentive awards to chief executive officers at comparable companies and the awards given to the CEO in past years.
- In consultation with the CEO, consider, formulate and evaluate the corporate goals and objectives of all non-CEO executive officers of the Company and (if such officers receive compensation from the Company), together with the CEO, determine the compensation levels of such non-CEO executive officers.
- Make recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans, oversee the activities of the individuals and committees responsible for administering these plans and discharge any responsibilities imposed on the Committee by any of these plans.
- In consultation with senior management, oversee regulatory compliance with respect to compensation matters, including overseeing the Company's policies on structuring compensation programs to preserve tax deductibility and, as and when required, establishing performance goals and certifying that performance goals have been attained for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended.
- Review and approve any severance or similar termination payments proposed to be made to any current or former executive officers of the Company.

Other Committee Responsibilities

- Review and make recommendations to the Board with respect to the compensation programs applicable to all directors of the Company.
- Prepare and issue the evaluations and required under "Performance Evaluation" below.

- Produce an annual Compensation Committee Report for inclusion in the Company's annual proxy statement in accordance with applicable SEC rules and regulations.
- Review and discuss with the management the CD&A for the Company's annual proxy statement and determine whether to recommend to the Board that such CD&A be included in the annual proxy statement.
- Conduct an annual review of this Charter and recommend to the Board any changes that the Committee deems appropriate.
- Any other duties or responsibilities expressly delegated to the Committee by the Board from time to time relating to the Company's compensation programs.

5. Selection of Advisors to the Committee; Independence Considerations

The Committee shall have the resources and authority appropriate to discharge its responsibilities and duties under this Charter or as required by the rules and regulations of the SEC or New York Stock Exchange. The Committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, independent legal counsel or other advisor (each, an "Advisor"), and shall be directly responsible for the appointment, compensation and oversight of the work of any such Advisor retained by the Committee. The Company shall be responsible for funding the reasonable compensation of any Advisor retained by the Committee.

Notwithstanding the foregoing, the Committee may select an Advisor only after taking into consideration all factors relevant to such Advisor's independence from the Company's management, including the following (for purposes of the following factors, the term "Advisor" shall include any Advisor who is an individual and any entity that employs such Advisor):

- The provision of other services by the Advisor to the Company;
- The amount of fees the Advisor receives from the Company, as a percentage of the Advisor's total revenue;
- The policies and procedures of the Advisor that are designed to prevent conflicts of interest;
- Any business or personal relationship of the Advisor with a member of the Committee;
- Any stock of the Company owned by the Advisor; and
- Any business or personal relationship of the Advisor with an executive officer of the Company;

provided, however, that this independence assessment is not required with respect to: (i) in-house legal counsel of the Company; and (ii) any Advisor whose role is limited to the following activities for which no disclosure would be required under Item 407(e)(3)(iii) of Regulation S-K:

- consulting on any broad-based plan that does not discriminate in scope, terms, or operation in favor of executive officers or directors of the Company and that is available generally to all salaried employees thereof; or

- providing information that either is not customized for the Company or that is customized based on parameters that are not developed by the Advisor and about which the Advisor does not provide advice.

The foregoing independence assessment does not require an Advisor to be independent, only that the Committee consider the above-stated independence factors before selecting or receiving advice from such Advisor.

6. Delegation to Subcommittee

The Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee.

7. Performance Evaluation

The Committee shall produce and provide to the Board an annual performance evaluation of the Committee, which evaluation shall compare the performance of the Committee with the requirements of this Charter and set forth the goals and objectives of the Committee for the upcoming year. The performance evaluation shall also recommend to the Board any improvements to this Charter deemed necessary or desirable by the Committee. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the Chairman of the Committee or any other member of the Committee designated by the Committee to make this report.

Approved by the Board: January 22, 2013