Ares Commercial Real Estate Corp
Form 10-Q
November 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period to

Commission File No. 001-35517

ARES COMMERCIAL REAL ESTATE CORPORATION
(Exact name of Registrant as specified in its charter)

Maryland	45-3148087
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

245 Park Avenue, 42nd Floor, New York, NY 10167
(Address of principal executive offices) (Zip Code)

(212) 750-7300
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at November 1, 2016
Common stock, $0.01 par value	28,482,756

ARES COMMERCIAL REAL ESTATE CORPORATION

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents ($10 and $8 related to consolidated VIEs, respectively)	$41,768	$5,066
Restricted cash	379	13,083
Loans held for investment ($186,042 and $483,572 related to consolidated VIEs, respectively)	1,473,920	1,174,391
Other assets ($1,355 and $2,695 of interest receivable related to consolidated VIEs, respectively; $36,936 and $35,607 of other receivables related to consolidated VIEs, respectively)	49,072	53,191
Assets of discontinued operations	—	133,251
Total assets	$1,565,139	$1,378,982
LIABILITIES AND EQUITY		
LIABILITIES		
Secured funding agreements	$879,102	$522,775
Secured term loan	149,270	69,762
Commercial mortgage-backed securitization debt (consolidated VIE)	—	61,815
Collateralized loan obligation securitization debt (consolidated VIE)	57,787	192,528
Due to affiliate	2,603	2,424
Dividends payable	7,406	7,152
Other liabilities ($90 and $299 of interest payable related to consolidated VIEs, respectively)	3,703	14,507
Liabilities of discontinued operations	—	51,531
Total liabilities	1,099,871	922,494
Commitments and contingencies (Note 5)		
EQUITY		
Common stock, par value $0.01 per share, 450,000,000 shares authorized at September 30, 2016 and December 31, 2015, 28,482,756 and 28,609,650 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	283	284
Additional paid-in capital	419,946	421,179
Accumulated deficit	(1,969)	(11,992)
Total stockholders' equity	418,260	409,471
Non-controlling interests in consolidated VIEs	47,008	47,017
Total equity	465,268	456,488
Total liabilities and equity	$1,565,139	$1,378,982

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net interest margin:				
Interest income from loans held for investment	$20,776	$ 20,949	$58,455	$ 65,131
Interest expense	(9,018)	(8,707)	(25,958)	(27,586)
Net interest margin	11,758	12,242	32,497	37,545
Expenses:				
Management and incentive fees to affiliate	1,690	1,351	4,380	4,040
Professional fees	678	617	1,703	1,535
General and administrative expenses	690	698	2,099	2,144
General and administrative expenses reimbursed to affiliate	860	840	2,417	2,591
Total expenses	3,918	3,506	10,599	10,310
Income from continuing operations before income taxes	7,840	8,736	21,898	27,235
Income tax expense (benefit), including excise tax	161	3	168	(15)
Net income from continuing operations	7,679	8,733	21,730	27,250
Net income from operations of discontinued operations, net of income taxes	1,866	2,977	4,221	5,018
Gain on sale of discontinued operations	10,196	—	10,196	—
Net income attributable to ACRE	19,741	11,710	36,147	32,268
Less: Net income attributable to non-controlling interests	(1,299)	(2,331)	(3,876)	(6,860)
Net income attributable to common stockholders	$18,442	$ 9,379	$32,271	$ 25,408
Basic earnings per common share:				
Continuing operations	$0.22	$ 0.22	$0.63	$ 0.72
Discontinued operations	0.42	0.10	0.51	0.18
Net income	$0.65	$ 0.33	$1.13	$ 0.89
Diluted earnings per common share:				
Continuing operations	$0.22	$ 0.22	$0.63	$ 0.71
Discontinued operations	0.42	0.10	0.51	0.18
Net income	$0.65	$ 0.33	$1.13	$ 0.89
Weighted average number of common shares outstanding:				
Basic weighted average shares of common stock outstanding	28,428,766	28,505,729	28,462,143	28,493,989
Diluted weighted average shares of common stock outstanding	28,513,137	28,609,650	28,536,921	28,593,496
Dividends declared per share of common stock	$0.26	$ 0.25	$0.78	$ 0.75

See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
(in thousands, except share and per share data)
(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Non-Controlling Interests	Total Equity
	Shares	Amount					
Balance at December 31, 2015	28,609,650	$ 284	$ 421,179	$ (11,992)	$ 409,471	$ 47,017	$ 456,488
Stock based compensation	3,022	—	202	—	202	—	202
Repurchase and retirement of common stock	(129,916)	(1)	(1,435)	—	(1,436)	—	(1,436)
Net income	—	—	—	32,271	32,271	3,876	36,147
Dividends declared	—	—	—	(22,248)	(22,248)	—	(22,248)
Contributions from non-controlling interests	—	—	—	—	—	11	11
Distributions to non-controlling interests	—	—	—	—	—	(3,896)	(3,896)
Balance at September 30, 2016	28,482,756	$ 283	$ 419,946	$ (1,969)	$ 418,260	$ 47,008	$ 465,268

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the nine months ended September 30,	
	2016	2015
	(unaudited)	(unaudited)
Operating activities:		
Net income	$36,147	$32,268
Adjustments to reconcile net income to net cash provided by (used in) operating activities (inclusive of amounts related to discontinued operations):		
Amortization of deferred financing costs	4,782	7,317
Change in mortgage banking activities	(10,386)	(11,200)
Change in fair value of mortgage servicing rights	6,457	6,955
Accretion of deferred loan origination fees and costs	(3,717)	(3,504)
Provision for loss sharing	(146)	(1,109)
Cash paid to settle loss sharing obligations	(681)	(2,264)
Originations of mortgage loans held for sale	(639,413)	(575,038)
Sale of mortgage loans held for sale to third parties	571,714	685,138
Stock-based compensation	202	662
Gain on sale of discontinued operations	(10,196)	—
Depreciation expense	167	164
Deferred tax expense	2,049	1,823
Changes in operating assets and liabilities:		
Restricted cash	1,411	41,916
Other assets	39,706	18,918
Due to affiliate	284	(46)
Other liabilities	1,805	2,576
Net cash provided by (used in) operating activities	185	204,576
Investing activities:		
Issuance of and fundings on loans held for investment	(782,364)	(153,245)
Principal repayment of loans held for investment	444,272	275,159
Proceeds from sale of a mortgage loan held for sale	—	74,625
Receipt of origination fees	6,009	810
Proceeds from sale of discontinued operations, net of cash sold	89,981	—
Purchases of other assets	(354)	(90)
Net cash provided by (used in) investing activities	(242,456)	197,259
Financing activities:		
Proceeds from secured funding agreements	1,288,698	170,525
Repayments of secured funding agreements	(932,371)	(201,648)
Payment of secured funding costs	(4,221)	(1,320)
Repayments of debt of consolidated VIEs	(197,445)	(243,703)
Proceeds from warehouse lines of credit	863,382	668,055
Repayments of warehouse lines of credit	(795,684)	(777,709)
Proceeds from secured term loan	80,000	—
Repurchase of common stock	(1,436)	—
Dividends paid	(21,994)	(21,446)
Contributions from non-controlling interests	11	5,685
Distributions to non-controlling interests	(3,896)	(6,426)

Net cash provided by (used in) financing activities	275,044	(407,987)
Change in cash and cash equivalents	32,773	(6,152)
Cash and cash equivalents of continuing operations, beginning of period	5,066	15,045
Cash and cash equivalents of discontinued operations, beginning of period	3,929	1,506
Cash and cash equivalents, end of period	$41,768	$ 10,399
Cash and cash equivalents of continuing operations, end of period	$41,768	$ 5,103
Cash and cash equivalents of discontinued operations, end of period	$—	$ 5,296

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of September 30, 2016
(in thousands, except share and per share data, percentages and as otherwise indicated)
(unaudited)

1. ORGANIZATION

Ares Commercial Real Estate Corporation (together with its consolidated subsidiaries, the "Company" or "ACRE") is a specialty finance company primarily engaged in originating and investing in commercial real estate loans and related investments. Through Ares Commercial Real Estate Management LLC ("ACREM" or the Company's "Manager"), a Securities and Exchange Commission ("SEC") registered investment adviser and a subsidiary of Ares Management, L.P. (NYSE: ARES) ("Ares Management"), a publicly traded, leading global alternative asset manager, it has investment professionals strategically located across the United States and Europe who directly source new loan opportunities for the Company with owners, operators and sponsors of commercial real estate ("CRE") properties. The Company was formed and commenced operations in late 2011. The Company is a Maryland corporation and completed its initial public offering (the "IPO") in May 2012. The Company is externally managed by its Manager, pursuant to the terms of a management agreement (the "Management Agreement").

The Company is primarily focused on directly originating and managing a diversified portfolio of CRE debt-related investments for the Company's own account. The Company's target investments include senior mortgage loans, subordinated debt, preferred equity, mezzanine loans and other CRE investments, including commercial mortgage backed securities ("CMBS"). These investments are generally held for investment and are secured, directly or indirectly, by office, multifamily, retail, industrial, lodging, senior-living, self-storage and other commercial real estate properties, or by ownership interests therein.

On June 28, 2016, the Company entered into a Purchase and Sale Agreement (as amended, the "Agreement") with Barings Real Estate Advisers LLC (formerly known as Cornerstone Real Estate Advisers LLC), a Delaware limited liability company (the "Buyer"), to sell ACRE Capital Holdings LLC ("TRS Holdings"), the holding company that owned the Company's mortgage banking subsidiary, ACRE Capital LLC ("ACRE Capital"). Under the terms and subject to the conditions set forth in the Agreement, on September 30, 2016, the Buyer purchased from the Company all of the outstanding common units of TRS Holdings (the "ACRE Capital Sale"). ACRE Capital primarily originated, sold and serviced multifamily and senior-living related loans under programs offered by government-sponsored enterprises and by government agencies.

Under the terms of the Agreement, the Buyer paid approximately $93 million in cash as consideration for the ACRE Capital Sale. The purchase price is subject to certain post-closing final working capital adjustments. The Company recognized a net gain on the sale of TRS Holdings of approximately $10.2 million.

The Company has elected and qualified to be taxed as a real estate investment trust ("REIT") for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended, commencing with its taxable year ended December 31, 2012. The Company generally will not be subject to U.S. federal income taxes on its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, to the extent that it annually distributes all of its REIT taxable income to stockholders and complies with various other requirements as a REIT.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the related management's discussion and analysis of financial condition and results of operations included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC.

Refer to the Company's Annual Report on Form 10-K for a description of the Company's recurring accounting policies. The Company has included disclosure below regarding basis of presentation and other accounting policies that (i) are required to be disclosed quarterly or (ii) the Company views as critical as of the date of this report.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with United States generally accepted accounting principles (“GAAP”) and include the accounts of the Company,

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the consolidated variable interest entities ("VIEs") that the Company controls and of which the Company is the primary beneficiary, and the Company's wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the Company's results of operations and financial condition as of and for the periods presented. All intercompany balances and transactions have been eliminated.

Interim financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the year ending December 31, 2016.

Discontinued Operations

As discussed in Note 1 included in these consolidated financial statements, the Company completed the ACRE Capital Sale on September 30, 2016. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 205-20, Presentation of Financial Statements - Discontinued Operations, defines the criteria required for a disposal transaction to qualify for reporting as a discontinued operation. The Company determined that the ACRE Capital Sale met the criteria for discontinued operations. As a result, the operating results and the assets and liabilities of ACRE Capital, which formerly comprised the Mortgage Banking segment, are presented separately in the Company's consolidated financial statements as discontinued operations. Net assets and net liabilities related to discontinued operations are included in the line items "Assets of discontinued operations" and "Liabilities of discontinued operations" in the consolidated balance sheets for all periods presented. As of December 31, 2015, the value of ACRE Capital's assets and liabilities are presented at the lower of carrying value or fair value less cost to sell. As of December 31, 2015, the fair value less cost to sell of ACRE Capital's assets and liabilities was greater than the carrying value; therefore, the Company did not recognize any impairment losses when the Company reclassified the assets and liabilities to discontinued operations. The operating results of discontinued operations are included in the line item "Net income from operations of discontinued operations, net of income taxes" in the consolidated statements of operations for all periods presented. Summarized financial information for the discontinued Mortgage Banking segment is shown in Note 13 included in these consolidated financial statements.

Variable Interest Entities

The Company evaluates all of its interests in VIEs for consolidation. When the Company's interests are determined to be variable interests, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. FASB ASC Topic 810, Consolidation, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. The Company considers its variable interests, as well as any variable interests of its related parties in making this determination. Where both of these factors are present, the Company is deemed to be the primary beneficiary and it consolidates the VIE. Where either one of these factors is not present, the Company is not the primary beneficiary and it does not consolidate the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments, servicing fees, and other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company applies judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by the Company.

For VIEs of which the Company is determined to be the primary beneficiary, all of the underlying assets, liabilities, equity, revenue and expenses of the structures are consolidated into the Company's consolidated financial statements.

The Company performs an ongoing reassessment of: (1) whether any entities previously evaluated under the majority voting interest framework have become VIEs, based on certain events, and therefore are subject to the VIE consolidation framework, and (2) whether changes in the facts and circumstances regarding its involvement with a VIE cause the Company’s consolidation conclusion regarding the VIE to change. See Note 12 included in these consolidated financial statements for further discussion of the Company’s VIEs.

Segment Reporting

The Company previously had two reportable business segments: Principal Lending and Mortgage Banking. As a result of the ACRE Capital Sale, the operations of the Mortgage Banking segment have been reclassified as discontinued operations in all periods presented. The Company now conducts and manages its business as one operating segment, rather than multiple operating segments; therefore, the Company no longer provides segment reporting. See Notes 1 and 13 included in these consolidated financial statements for further discussion of the sale of the Mortgage Banking segment.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. Amortization of convertible notes issuance costs and accretion of convertible notes have been reclassified into amortization of deferred financing costs in the consolidated statements of cash flows. As of September 30, 2016 and December 31, 2015, the Company no longer presents amortization of convertible notes issuance costs and accretion of convertible notes in its consolidated statements of cash flows.

The Company presents, in discontinued operations, the results of operations that have been disposed of for which the disposition represents a strategic shift that has or will have a significant effect on the Company's operations and financial results. As a result of this presentation, retroactive reclassifications that change prior period numbers have been made. See Notes 1 and 13 included in these consolidated financial statements for further discussion of the sale of the Mortgage Banking segment.

Loans Held for Investment

The Company originates CRE debt and related instruments generally to be held for investment. Loans that are held for investment are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, the Company will record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan’s contractual effective rate.

Each loan classified as held for investment is evaluated for impairment on a quarterly basis. Loans are collateralized by real estate. The extent of any credit deterioration associated with the performance and/or value of the underlying collateral property and the financial and operating capability of the borrower could impact the expected amounts received. The Company monitors performance of its investment portfolio under the following methodology:
(1) borrower review, which analyzes the borrower’s ability to execute on its original business plan, reviews its financial condition, assesses pending litigation and considers its general level of responsiveness and cooperation;
(2) economic review, which considers underlying collateral (i.e. leasing performance, unit sales and cash flow of the collateral and its ability to cover debt service, as well as the residual loan balance at maturity); (3) property review, which considers current environmental risks, changes in insurance costs or coverage, current site visibility, capital expenditures and market perception; and (4) market review, which analyzes the collateral from a supply and demand perspective of similar property types, as well as from a capital markets perspective. Such impairment analyses are

completed and reviewed by asset management and finance personnel who utilize various data sources, including periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, and the borrower's exit plan, among other factors.

In addition, the Company evaluates the entire portfolio to determine whether the portfolio has any impairment that requires a valuation allowance on the remainder of the loan portfolio. As of September 30, 2016 and December 31, 2015, the Company did not recognize any impairment charges with respect to its loans held for investment.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed against interest income in the period the loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding the borrower's ability to make pending principal and interest payments. Non-accrual loans are restored to accrual status when past

due principal and interest are paid and, in management's judgment, are likely to remain current. The Company may make exceptions to placing a loan on non-accrual status if the loan has sufficient collateral value and is in the process of collection.

Preferred equity investments, which are subordinate to any loans but senior to common equity, are accounted for as loans held for investment and are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired, and are included within loans held for investment in the Company's consolidated balance sheets. The Company accretes or amortizes any discounts or premiums over the life of the related loan held for investment utilizing the effective interest method.

Revenue Recognition

Interest income from loans held for investment is accrued based on the outstanding principal amount and the contractual terms of each loan. For loans held for investment, origination fees, contractual exit fees and direct loan origination costs are also recognized in interest income from loans held for investment over the initial loan term as a yield adjustment using the effective interest method.

A reconciliation of the Company's interest income from loans held for investment, excluding non-controlling interests, to the Company's interest income from loans held for investment as included within its consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 is as follows ($ in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Interest income from loans held for investment, excluding non-controlling interests	$19,473	$18,618	$54,573	$58,251
Interest income from non-controlling interest investment held by third parties	1,303	2,331	3,882	6,880
Interest income from loans held for investment	$20,776	$20,949	$58,455	$65,131

Net Interest Margin and Interest Expense

Net interest margin within the consolidated statements of operations serves to measure the performance of the Company's loans held for investment as compared to its use of debt leverage. The Company includes interest income from its loans held for investment and interest expense related to its Secured Funding Agreements, securitizations debt, the Secured Term Loan and the 2015 Convertible Notes (individually defined in Note 4 included in these consolidated financial statements) in net interest margin. For the three and nine months ended September 30, 2016 and 2015, interest expense is comprised of the following ($ in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Secured funding agreements and securitizations debt	$6,914	$7,063	$20,339	$22,737
Secured term loan	2,104	—	5,619	—
Convertible notes	—	1,644	—	4,849
Interest expense	$9,018	$8,707	$25,958	$27,586

Comprehensive Income

For the three and nine months ended September 30, 2016 and 2015, comprehensive income equaled net income; therefore, a separate consolidated statement of comprehensive income is not included in the accompanying consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to

customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations, which clarifies the guidance in ASU No. 2014-09 and has the same effective date as the original standard. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, an update on identifying performance obligations and accounting for licenses of intellectual property. Additionally, in May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which includes amendments for enhanced clarification of the guidance. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Leases (Topic 840). Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. The amendments in ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU No. 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard will replace the incurred loss impairment methodology pursuant to GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU No. 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, with early adoption permitted after December 15, 2018, including interim periods within that reporting period. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

3. LOANS HELD FOR INVESTMENT

As of September 30, 2016, the Company had originated or co-originated 34 loans held for investment, excluding 42 loans that were repaid or sold since inception. The aggregate originated commitment under these loans at closing was approximately $1.6 billion and outstanding principal was $1.4 billion, excluding non-controlling interests held by third parties, as of September 30, 2016. During the nine months ended September 30, 2016, the Company funded approximately $784.3 million of outstanding principal and received repayments of $481.2 million of outstanding principal, excluding non-controlling interests held by third parties, as described in more detail in the tables below. Such investments are referred to herein as the Company’s "investment portfolio." As of September 30, 2016, 81.2% of the Company’s loans have London Interbank Offered Rates ("LIBOR") floors, with a weighted average floor of 0.36%, calculated based on loans with LIBOR floors. References to LIBOR or “L” are to 30-day LIBOR (unless otherwise specifically stated).

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The Company’s investments in loans held for investment are accounted for at amortized cost. The following tables summarize the Company’s loans held for investment as of September 30, 2016 and December 31, 2015 ($ in thousands):

	As of September 30, 2016						
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Interest Rate		Weighted Average Unleveraged Effective Yield (2)		Weighted Average Remaining Life (Years)
Senior mortgage loans	$1,263,459	$1,271,000	4.7	%	5.4	%	1.9
Subordinated debt and preferred equity investments	163,882	165,977	10.7	%	11.2	%	4.9
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	$1,427,341	$1,436,977	5.4	%	6.1	%	2.2

	As of December 31, 2015						
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Interest Rate		Weighted Average Unleveraged Effective Yield (2)		Weighted Average Remaining Life (Years)
Senior mortgage loans	$961,395	$965,578	4.4	%	5.1	%	1.4
Subordinated debt and preferred equity investments	166,417	168,264	10.6	%	11.2	%	5.1
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	$1,127,812	$1,133,842	5.3	%	6.0	%	1.9

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(1) The difference between the Carrying Amount and the Outstanding Principal face amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs. The tables above exclude non-controlling interests held by third parties. A reconciliation of the Carrying Amount of loans held for investment portfolio, excluding non-controlling interests, to the Carrying Amount of loans held for investment, as included within the Company's consolidated balance sheets, is presented below.

(2) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premium or discount) and assumes no dispositions, early prepayments or defaults. The Total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of September 30, 2016 and December 31, 2015 as weighted by the Outstanding Principal balance of each loan.

A reconciliation of the Company's loans held for investment portfolio, excluding non-controlling interests held by third parties, to the Company's loans held for investment as included within its consolidated balance sheets is as follows ($ in thousands):

	As of September 30, 2016	
	Carrying Amount	Outstanding Principal
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	$ 1,427,341	$ 1,436,977
Non-controlling interest investment held by third parties	46,579	46,579
Loans held for investment	$ 1,473,920	$ 1,483,556

	As of December 31, 2015	
	Carrying Amount	Outstanding Principal
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	$ 1,127,812	$ 1,133,842
Non-controlling interest investment held by third parties	46,579	46,579
Loans held for investment	$ 1,174,391	$ 1,180,421

A more detailed listing of the Company’s investment portfolio, excluding non-controlling interests, based on information available as of September 30, 2016 is as follows ($ in millions, except percentages):

Loan Type		Location	Outstanding Principal (1)	Carrying Amount (1)	Interest Rate	Unleveraged Effective Yield (2)	Maturity Date (3)		Payment Terms (4)	
Senior Mortgage Loans:										
Various	(5)	Diversified	$159.2	$157.7	L+4.35%	5.6%	Oct 2018		I/O	
Various	(6)	Diversified	98.9	97.9	L+4.75%	6.0%	Oct 2018		I/O	
Multifamily		FL	89.7	89.2	L+4.75%	5.8%	Sep 2019		I/O	
Office		TX	84.4	84.3	L+5.00%	6.3%	Jan 2017		I/O	
Retail		IL	75.9	75.7	L+4.00%	4.9%	Aug 2017		I/O	
Mixed-use		NY	65.6	65.2	L+4.16%	5.1%	Apr 2019		I/O	
Office		CA	57.5	56.9	L+4.40%	5.5%	Aug 2019		I/O	
Hotel		CA	56.0	55.6	L+4.75%	6.0%	Feb 2019		I/O	
Office		IL	53.2	52.5	L+3.99%	5.0%	Aug 2019		I/O	
Multifamily		FL	45.4	45.1	L+4.75%	5.8%	Sep 2019		I/O	
Healthcare		NY	41.6	41.6	L+5.00%	6.0%	Dec 2016		I/O	
Office		FL	36.7	36.7	L+3.65%	4.3%	Oct 2017		I/O	
Hotel		NY	36.5	36.3	L+4.75%	5.7%	June 2018		I/O	
Hotel		MI	35.2	35.2	L+4.15%	4.9%	July 2017		I/O	
Multifamily		MN	34.1	33.8	L+4.75%	5.8%	Oct 2019		I/O	
Industrial		OH	32.5	32.4	L+4.20%	5.0%	May 2018		I/O	(7)
Retail		IL	30.4	30.2	L+3.25%	4.2%	Sep 2018		I/O	
Office		OR	29.4	29.2	L+3.75%	4.7%	Oct 2018		I/O	
Multifamily		NY	29.2	29.1	L+3.75%	4.7%	Oct 2017		I/O	
Mixed-use		NY	28.4	28.4	L+4.25%	5.1%	Aug 2017		I/O	
Multifamily		TX	24.9	24.8	L+3.80%	4.5%	Jan 2019		I/O	
Multifamily		AZ	22.1	22.0	L+4.25%	5.5%	Sep 2017	(8)	I/O	
Multifamily		FL	19.8	19.5	L+4.25%	5.5%	Feb 2019		I/O	
Office		PA	19.6	19.4	L+4.70%	5.7%	Mar 2020		I/O	
Office		CO	19.5	19.4	L+3.95%	4.9%	Dec 2017		I/O	
Multifamily		NY	15.3	15.3	L+3.85%	4.7%	Nov 2017		I/O	
Mixed-use		NY	15.1	15.0	L+3.95%	5.1%	Sep 2017		I/O	

Office		CA	14.9	15.0	L+4.50%		5.0%	July 2018	I/O	
Subordinated Debt and Preferred Equity Investments:										
Various	(9)	Diversified	48.5	47.5	10.95%		11.7%	Dec 2024	I/O	
Multifamily		GA/FL	36.0	35.7	L+11.85%	(10)	12.6%	June 2021	I/O	
Multifamily		NY	33.3	33.2	L+8.07%		8.9%	Jan 2019	I/O	
Office		NJ	17.0	16.3	12.00%		12.8%	Jan 2026	I/O	(7)
Mixed-use		NY	16.9	16.9	11.50%	(11)	12.1%	Nov 2016	I/O	
Office		GA	14.3	14.3	9.50%		9.5%	Aug 2017	I/O	
Total/Weighted Average			$1,437.0	$1,427.3			6.1%			

(1) The difference between the Carrying Amount and the Outstanding Principal amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs.

(2) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premium or discount) and assumes no dispositions, early prepayments or defaults. Unleveraged Effective Yield for each loan is calculated based on LIBOR as of September 30, 2016 or the LIBOR floor, as applicable. The Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of September 30, 2016 as weighted by the Outstanding Principal balance of each loan.

(3) Certain loans are subject to contractual extension options that vary between one and two 12-month extensions and may be subject to performance based or other conditions as stipulated in the loan agreement. Actual maturities may differ from contractual maturities stated herein as certain borrowers may have the right to prepay with or without paying a prepayment penalty. The Company may also extend contractual maturities in connection with loan modifications.

(4) I/O = interest only, P/I = principal and interest.

(5) The senior mortgage loan, which had an outstanding principal balance of $159.2 million as of September 30, 2016, is collateralized by a portfolio of assets comprised of self-storage, retail and office properties.

(6) The senior mortgage loan, which had an outstanding principal balance of $98.9 million as of September 30, 2016, is collateralized by a portfolio of assets comprised of self-storage and retail properties.

(7) In May 2017, amortization will begin on the senior Ohio loan, which had an outstanding principal balance of $32.5 million as of September 30, 2016. In February 2021, amortization will begin on the subordinated New Jersey loan,

which had an outstanding principal balance of $17.0 million as of September 30, 2016. The remainder of the loans in the Company's portfolio are non-amortizing through their primary terms.

(8) In June 2016, the Company extended the maturity date on the senior Arizona loan to September 2017 in accordance with the loan agreement.

(9) The preferred equity investment is in an entity whose assets are comprised of multifamily, student housing and medical office properties.

(10) The preferred return is L+11.85% with 2.00% as payment-in-kind ("PIK"), to the extent cash flow is not available. There is no capped dollar amount on accrued PIK.

(11) The interest rate is 11.50% with a 9.00% current pay and up to a capped dollar amount as PIK based on the borrower's election. In July 2015, the Company entered into an amendment to increase the loan commitment and outstanding principal by $650 thousand at an interest rate of 15.00% on the increased commitment and outstanding principal only.

For the nine months ended September 30, 2016, the activity in the Company's loan portfolio was as follows ($ in thousands):

Balance at December 31, 2015	$1,174,391
Initial funding	756,392
Origination fees and discounts, net of costs	(7,323)
Additional funding	27,951
Amortizing payments	(463)
Loan payoffs	(480,745)
Origination fee accretion	3,717
Balance at September 30, 2016	$1,473,920

No impairment charges have been recognized during the three and nine months ended September 30, 2016 and 2015.

4. DEBT

Financing Agreements

The Company borrows funds under the Wells Fargo Facility, the Citibank Facility, the BAML Facility, the CNB Facilities, the MetLife Facility, the UBS Facilities and the U.S. Bank Facility (individually defined below and collectively, the "Secured Funding Agreements") and the Secured Term Loan (defined below). The Company refers to the Secured Funding Agreements and the Secured Term Loan as the "Financing Agreements." As of September 30, 2016 and December 31, 2015, the outstanding balances and total commitments under the Financing Agreements consisted of the following ($ in thousands):

	September 30, 2016			December 31, 2015	
	Outstanding Balance	Total Commitment		Outstanding Balance	Total Commitment
Wells Fargo Facility	$229,255	$325,000		$101,473	$225,000
Citibank Facility	319,925	250,000	(1)	112,827	250,000
BAML Facility	77,679	125,000	(2)	—	50,000
March 2014 CNB Facility	—	50,000		—	50,000
July 2014 CNB Facility	—	(3) —	(3)	66,200	75,000
MetLife Facility	111,999	180,000		109,474	180,000
April 2014 UBS Facility	82,004	140,000		75,558	140,000

December 2014 UBS Facility	— (4)	— (4)	57,243	57,243
U.S. Bank Facility	58,240	125,000 (5)	—	—
Secured Term Loan	155,000	155,000	75,000	155,000
Total	$1,034,102	$ 1,350,000	$597,775	$ 1,182,243

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(1) In July 2016, the Company entered into an amendment to the CitiBank Facility (defined below), which added an accordion feature that provides for an increase in the $250.0 million commitment amount with respect to approved assets, as determined by Citibank, N.A. in its sole discretion.
(2) In August 2016, the Company amended and restated the existing BAML Facility (defined below) to increase its commitment size from $50.0 million to $125.0 million.
(3) The July 2014 CNB Facility (defined below) has been repaid in full and its terms were not extended.
(4) The December 2014 UBS Facility (defined below) has been repaid in full and its terms were not extended.
(5) In August 2016, the Company entered into a $125.0 million master repurchase and securities contract with U.S. Bank (defined below).

Some of the Company's Financing Agreements are collateralized by (i) assignments of specific loans, preferred equity or a pool of loans held for investment or loans held for sale owned by the Company, (ii) interests in the subordinated portion of the Company's securitization debt, or (iii) interests in wholly owned entity subsidiaries that hold the Company's loans held for investment. The Company is the borrower or guarantor under each of the Financing Agreements. Generally, the Company partially offsets interest rate risk by matching the interest index of loans held for investment with the Secured Funding Agreements used to fund them. The Company's Financing Agreements contain various affirmative and negative covenants, including negative pledges, and provisions regarding events of default that are normal and customary for similar financing arrangements.

Wells Fargo Facility

The Company is party to a master repurchase funding facility arranged by Wells Fargo Bank, National Association ("Wells Fargo") (the “Wells Fargo Facility”), which allows the Company to borrow up to $325.0 million. In June 2016, the Company amended the Wells Fargo Facility to increase the facility's size from $225.0 million to $325.0 million and extend the initial maturity date to December 14, 2017. The Company has two 12-month extensions at its option assuming no existing defaults under the Wells Fargo Facility and applicable extension fees being paid. Under the Wells Fargo Facility, the Company is permitted to sell, and later repurchase, certain qualifying senior commercial mortgage loans, A-Notes, pari passu participations in commercial mortgage loans and mezzanine loans under certain circumstances, subject to available collateral approved by Wells Fargo in its sole discretion. Beginning on December 14, 2015, new advances under the Wells Fargo Facility accrue interest at a per annum rate equal to the sum of (i) 30 day LIBOR plus (ii) a pricing margin range of 1.75% to 2.35%. Advances on loans made prior to December 14, 2015 under the Wells Fargo Facility continue to accrue interest at a per annum rate equal to the sum of (i) 30 day LIBOR plus (ii) a pricing margin range of 2.00% to 2.50%. The Company incurs a non-utilization fee of 25 basis points on the daily available balance of the Wells Fargo Facility to the extent less than 75% of the Wells Fargo Facility is utilized. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of $132 thousand and $278 thousand, respectively. For the three and nine months ended September 30, 2015, the Company incurred a non-utilization fee of $65 thousand and $120 thousand, respectively.

Citibank Facility

The Company is party to a $250.0 million master repurchase facility (the “Citibank Facility”) with Citibank, N.A. Under the Citibank Facility, the Company is permitted to sell and later repurchase certain qualifying senior commercial mortgage loans and A-Notes approved by Citibank, N.A. in its sole discretion. In July 2016, the Company amended the CitiBank Facility to add an accordion feature that provides for an increase in the $250.0 million commitment amount with respect to approved assets, as determined by Citibank, N.A. in its sole discretion. Advances under the Citibank Facility accrue interest at a per annum rate equal to 30 day LIBOR plus a pricing margin range of 2.00% to 2.50%, subject to certain exceptions. The initial maturity date of the Citibank Facility is December 8, 2016, subject to three 12-month extensions at the Company's option assuming no existing defaults under the Citibank Facility and

applicable extension fees being paid. The Company incurs a non-utilization fee of 25 basis points on the daily available balance of the Citibank Facility. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of $3 thousand and $95 thousand, respectively. For the three and nine months ended September 30, 2015, the Company incurred a non-utilization fee of $88 thousand and $282 thousand, respectively.

BAML Facility

The Company is party to a $125.0 million Bridge Loan Warehousing Credit and Security Agreement (the “BAML Facility”) with Bank of America, N.A. Under the BAML Facility, the Company may obtain advances secured by eligible commercial mortgage loans collateralized by multifamily properties. Bank of America, N.A. may approve the loans on which advances are made under the BAML Facility in its sole discretion. In August 2016, the Company amended and restated the

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existing BAML Facility to increase its commitment size from $50.0 million to $125.0 million. The Company also amended the BAML Facility so that the Company may obtain advances secured by eligible commercial mortgage loans collateralized by general and affordable multifamily properties. In May 2016, the Company amended the BAML Facility to extend the period during which the Company may request individual loans under the facility to May 25, 2017. Individual advances under the BAML Facility generally have a two-year maturity, subject to one 12-month extension at the Company's option upon the satisfaction of certain conditions and applicable extension fees being paid. In addition, in May 2016, the final maturity date of individual loans under the BAML Facility was extended to May 25, 2020. Advances under the BAML Facility accrue interest at a per annum rate equal to one-month LIBOR plus a spread ranging from 2.25% to 2.75% depending upon the type of asset securing such advance. The Company incurs a non-utilization fee of 12.5 basis points on the average daily available balance of the BAML Facility. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of $20 thousand and $52 thousand, respectively. For the three and nine months ended September 30, 2015, the Company incurred a non-utilization fee of $16 thousand and $21 thousand, respectively.

City National Bank Facilities

March 2014 CNB Facility

The Company is party to a $50.0 million secured revolving funding facility with City National Bank (the “March 2014 CNB Facility”). The Company is permitted to borrow funds under the March 2014 CNB Facility to finance investments and for other working capital and general corporate needs. In February 2016, the Company amended the March 2014 CNB Facility to extend the initial maturity date to March 11, 2017. The Company has one 12-month extension at its option provided that certain conditions are met and applicable extension fees are paid, which, if exercised, would extend the final maturity of the March 2014 CNB Facility to March 10, 2018. Advances under the March 2014 CNB Facility accrue interest at a per annum rate equal to the sum of, at the Company’s option, either (a) LIBOR for a one, two, three, six or, if available to all lenders, 12 month interest period plus 3.00% or (b) a base rate (which is the highest of a prime rate, the federal funds rate plus 0.50%, or one month LIBOR plus 1.00%) plus 1.25%; provided that in no event shall the interest rate be less than 3.00%. Unless at least 75% of the March 2014 CNB Facility is used on average, unused commitments under the March 2014 CNB Facility accrue unused line fees at the rate of 0.375% per annum. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of $28 thousand and $74 thousand, respectively. For the three and nine months ended September 30, 2015, the Company incurred a non-utilization fee of $46 thousand and $130 thousand, respectively.

July 2014 CNB Facility

The Company and certain of its subsidiaries were party to a $75.0 million revolving funding facility (the “July 2014 CNB Facility” and together with the March 2014 CNB Facility, the "CNB Facilities") with City National Bank. The Company was permitted to borrow funds under the July 2014 CNB Facility to finance investments and for other working capital and general corporate needs. In July 2016, the Company amended the July 2014 CNB Facility to extend the maturity date to September 30, 2016. Advances under the July 2014 CNB Facility accrued interest at a per annum rate equal, at the Company’s option, to either (a) LIBOR for a one, two, three, six or, if available to all lenders, 12 month interest period plus 1.50% or (b) a base rate (which was the highest of a prime rate, the federal funds rate plus 0.50%, or one month LIBOR plus 1.00%) plus 0.25%; provided that in no event shall the interest rate be less than 1.50%. Unless at least 75% of the July 2014 CNB Facility was used on average, unused commitments under the July 2014 CNB Facility accrued unused line fees at the rate of 0.125% per annum. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of $13 thousand and $40 thousand, respectively. For the three and nine months ended September 30, 2015, the Company did not incur a non-utilization fee. On September 30, 2016, the July 2014 CNB Facility was repaid in full and its terms were not extended. See Note 10 included in these consolidated financial statements for more information on a credit support fee agreement.

MetLife Facility

The Company and certain of its subsidiaries are party to a $180.0 million revolving master repurchase facility (the “MetLife Facility”) with Metropolitan Life Insurance Company (“MetLife”), pursuant to which the Company may sell, and later repurchase, commercial mortgage loans meeting defined eligibility criteria which are approved by MetLife in its sole discretion. The initial maturity date of the MetLife Facility is August 12, 2017, subject to two 12-month extensions at the Company’s option provided that certain conditions are met and applicable extension fees are paid. Advances under the MetLife Facility accrue interest at a per annum rate of 30 day LIBOR plus 2.35%. The Company will pay MetLife, if applicable, an annual make-whole fee equal to the amount by which the aggregate price differential paid over the term of the MetLife Facility is less than the defined minimum price differential, unless certain conditions are met.

UBS Facilities

April 2014 UBS Facility

The Company is party to a $140.0 million revolving master repurchase facility (the “April 2014 UBS Facility”) with UBS Real Estate Securities Inc. (“UBS”), pursuant to which the Company may sell, and later repurchase, commercial mortgage loans and, under certain circumstances, other assets meeting defined eligibility criteria that are approved by UBS in its sole discretion. The maturity date of the April 2014 UBS Facility is October 21, 2018, subject to annual extensions in UBS' sole discretion. The price differential (or interest rate) on the April 2014 UBS Facility is one-month LIBOR plus (a) 1.88% per annum, for assets that are subject to an advance for one year or less, (b) 2.08% per annum, for assets that are subject to an advance in excess of one year but less than two years, and (c) 2.28% per annum, for assets that are subject to an advance for greater than two years; in each case, excluding amortization of commitment and exit fees. Upon termination of the April 2014 UBS Facility, the Company will pay UBS, if applicable, the amount by which the aggregate price differential paid over the term of the April 2014 UBS Facility is less than the defined minimum price differential and an exit fee, in each case, unless certain conditions are met.

December 2014 UBS Facility

The Company was party to a global master repurchase agreement (the “December 2014 UBS Facility,” and together with the April 2014 UBS Facility, the "UBS Facilities") with UBS AG, pursuant to which the Company sold, and later repurchased, certain retained subordinate notes in the Company's CMBS securitization for an aggregate purchase price equal to $57.2 million. The scheduled repurchase date of the December 2014 UBS Facility was July 6, 2016. The transaction fee (or interest rate), which was payable monthly on the December 2014 UBS Facility, was equal to one-month LIBOR plus 2.74% per annum on the outstanding amount. On June 17, 2016, the December 2014 UBS Facility was repaid in full and its terms were not extended. See Note 12 included in these consolidated financial statements for information on the termination of the CMBS securitization.

U.S. Bank Facility

On August 1, 2016, a subsidiary of the Company entered into a $125.0 million master repurchase and securities contract (the "U.S. Bank Facility") with U.S. Bank National Association (“U.S. Bank”). Pursuant to the U.S. Bank Facility, the Company is permitted to sell, and later repurchase, eligible commercial mortgage loans collateralized by retail, office, mixed-use, multifamily, industrial, hospitality, student housing, manufactured housing or self-storage properties. U.S. Bank may approve the mortgage loans that are subject to the U.S. Bank Facility in its sole discretion. The initial maturity date of the U.S. Bank Facility is July 31, 2019, and the facility is subject to two 12-month extensions at the Company’s option upon the satisfaction of certain conditions, including the payment of an extension fee. Advances under the U.S. Bank Facility accrue interest at a per annum rate equal to one-month LIBOR plus a spread of 2.25%, unless otherwise agreed between U.S. Bank and the Company, depending upon the mortgage loan sold to U.S. Bank in the applicable transaction. The Company incurs a non-utilization fee of 6.25 basis points on the average daily available balance of the U.S. Bank Facility to the extent less than 50% of the U.S. Bank Facility is utilized. For both the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of $8 thousand.

Secured Term Loan

The Company and certain of its subsidiaries are party to a $155.0 million Credit and Guaranty Agreement (the "Secured Term Loan") with Highbridge Principal Strategies, LLC, as administrative agent, and DBD Credit Funding LLC, as collateral agent. The Company made an initial draw of $75.0 million on December 9, 2015, the closing date. The Company drew the remaining $80.0 million of the Secured Term Loan on September 9, 2016. The Secured Term Loan bears interest at a rate of LIBOR plus 6.0% with a LIBOR floor of 1.0% on drawn amounts. The Secured Term

Loan has a maturity date of December 9, 2018. The Company was subject to a monthly non-utilization fee equal to 1.0% per annum on the unused commitment amount during the nine-month commitment period following the closing date for which the $80.0 million of the Secured Term Loan was not utilized. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of $156 thousand and $560 thousand, respectively. The total original issue discount on the Secured Term Loan draws was $2.3 million, which represents a discount to the debt cost to be amortized into interest expense using the effective interest method over the term of the Secured Term Loan. The estimated effective interest rate of the Secured Term Loan, which is equal to LIBOR (subject to a floor of 1.0%) plus the stated rate of 6.0% plus the accretion of the original issue discount and associated costs, was 8.5% for the three and nine months ended September 30, 2016.

2015 Convertible Notes

In December 2012, the Company issued $69.0 million aggregate principal amount of unsecured 7.00% Convertible Senior Notes due 2015 (the "2015 Convertible Notes"). The 2015 Convertible Notes bore interest at a rate of 7.00% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2013. The effective interest rate of the 2015 Convertible Notes, which was equal to the stated rate of 7.00% plus the accretion of the original issue discount and associated costs, was 9.4% for the three and nine months ended September 30, 2015. For the three and nine months ended September 30, 2015, the interest expense incurred on the 2015 Convertible Notes was $1.6 million and $4.8 million, respectively. The 2015 Convertible Notes matured on December 15, 2015 and were fully repaid at par.

5. COMMITMENTS AND CONTINGENCIES

As of September 30, 2016 and December 31, 2015, the Company had the following commitments to fund various senior mortgage loans, subordinated debt investments, as well as preferred equity investments accounted for as loans held for investment ($ in thousands):

	As of September 30, 2016	December 31, 2015
Total commitments	$1,531,568	$1,232,163
Less: funded commitments	(1,436,977)	(1,133,842)
Total unfunded commitments	$94,591	$98,321

The Company from time to time may be party to litigation relating to claims arising in the normal course of business. As of September 30, 2016, the Company is not aware of any legal claims that could materially impact its business, financial condition or results of operations.

6. EQUITY

Stock Buyback Program

In May 2015, the Company announced that the Company's board of directors authorized the Company to repurchase up to $20.0 million of the Company's outstanding common stock over a period of one year (the "Stock Buyback Program"). In February 2016, the Company's board of directors increased the size of the existing $20.0 million Stock Buyback Program to $30.0 million and extended the Stock Buyback Program through March 31, 2017. Purchases made pursuant to the Stock Buyback Program will be made in either the open market or in privately negotiated transactions, from time to time and as permitted by federal securities laws and other legal requirements. Repurchases may be suspended or discontinued at any time. In connection with this Stock Buyback Program, in March 2016, the Company entered into a Rule 10b5-1 plan to repurchase shares of the Company’s common stock in accordance with certain parameters set forth in the Stock Buyback Program. During the nine months ended September 30, 2016, the Company repurchased a total of 129,916 shares of the Company's common stock in the open market for an aggregate purchase price of approximately $1.4 million, including expenses paid. The shares were repurchased at an average price of $11.06 per share, including expenses paid.

Common Stock

There were no shares issued in public or private offerings for the nine months ended September 30, 2016. See "Equity Incentive Plan" below for shares issued under the plan.

Equity Incentive Plan

On April 23, 2012, the Company adopted an equity incentive plan (the “2012 Equity Incentive Plan”). Pursuant to the 2012 Equity Incentive Plan, the Company may grant awards consisting of restricted shares of the Company’s common stock, restricted stock units and/or other equity-based awards to the Company’s outside directors, employees, officers, ACREM and other eligible awardees under the plan, subject to an aggregate limitation of 690,000 shares of common stock (7.5% of the issued and outstanding shares of the Company’s common stock immediately after giving effect to the issuance of the shares sold in the IPO). Any restricted shares of the Company’s common stock and restricted stock units will be accounted for under FASB ASC Topic 718, Compensation—Stock Compensation, resulting in share-based compensation expense equal to the grant date fair value of the underlying restricted shares of common stock or restricted stock units.

Restricted stock grants generally vest ratably over a one to four year period from the vesting start date. The grantee receives additional compensation for each outstanding restricted stock grant, classified as dividends paid, equal to the per-share dividends received by common stockholders.

The following table details the restricted stock grants awarded as of September 30, 2016:

Grant Date	Vesting Start Date	Shares Granted
May 1, 2012	July 1, 2012	35,135
June 18, 2012	July 1, 2012	7,027
July 9, 2012	October 1, 2012	25,000
June 26, 2013	July 1, 2013	22,526
November 25, 2013	November 25, 2016	30,381
January 31, 2014	August 31, 2015	48,273
February 26, 2014	February 26, 2014	12,030
February 27, 2014	August 27, 2014	22,354
June 24, 2014	June 24, 2014	17,658
June 24, 2015	July 1, 2015	25,555
April 25, 2016	July 1, 2016	10,000
June 27, 2016	July 1, 2016	24,680
Total		280,619

The following tables summarize the non-vested shares of restricted stock and the vesting schedule of shares of restricted stock for the Company's directors and officers and employees of ACRE Capital as of September 30, 2016:

Schedule of Non-Vested Share and Share Equivalents

	Restricted Stock Grants—Directors	Restricted Stock Grants—Officer	Restricted Stock Grants—Employees	Total
Balance at December 31, 2015	16,945	4,686	62,563	84,194
Granted	34,680	—	—	34,680
Vested	(20,996)	(4,686)	(32,182)	(57,864)
Forfeited	(1,277)	—	(30,381)	(31,658)
Balance at September 30, 2016	29,352	—	—	29,352

Future Anticipated Vesting Schedule

	Restricted Stock Grants—Directors	Restricted Stock Grants—Officer	Restricted Stock Grants—Employees	Total
2016	7,838	—	—	7,838
2017	16,510	—	—	16,510
2018	3,336	—	—	3,336
2019	1,668	—	—	1,668
2020	—	—	—	—
Total	29,352	—	—	29,352

Non-Controlling Interests

The non-controlling interests held by third parties in the Company's consolidated balance sheets represent the equity interests in a limited liability company, ACRC KA Investor LLC ("ACRC KA") that are not owned by the Company. A portion of ACRC KA's consolidated equity and net income are allocated to these non-controlling interests held by third parties based on

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their pro-rata ownership of ACRC KA. As of both September 30, 2016 and December 31, 2015, ACRC KA's total equity was $96.0 million, of which $49.0 million was owned by the Company and $47.0 million was allocated to non-controlling interests held by third parties. See Note 12 included in these consolidated financial statements for more information on ACRC KA.

7. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted earnings per common share from continuing operations and discontinued operations for the three and nine months ended September 30, 2016 and 2015 ($ in thousands, except share and per share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net income from continuing operations, less non-controlling interests	$6,380	$ 6,402	$17,854	$ 20,390
Net income from discontinued operations, including gain on sale of discontinued operations	$12,062	$ 2,977	$14,417	$ 5,018
Divided by:				
Basic weighted average shares of common stock outstanding:	28,428,766	28,505,729	28,462,143	28,493,989
Non-vested restricted stock	84,371	103,921	74,778	99,507
Diluted weighted average shares of common stock outstanding:	28,513,137	28,609,650	28,536,921	28,593,496
Basic earnings per common share (1):				
Continuing operations	$0.22	$ 0.22	$0.63	$ 0.72
Discontinued operations	0.42	0.10	0.51	0.18
Net income	$0.65	$ 0.33	$1.13	$ 0.89
Diluted earnings per common share (1):				
Continuing operations	$0.22	$ 0.22	$0.63	$ 0.71
Discontinued operations	0.42	0.10	0.51	0.18
Net income	$0.65	$ 0.33	$1.13	$ 0.89

(1) The Company has considered the impact of the 2015 Convertible Notes and the restricted shares on diluted earnings per common share. The number of shares of common stock that the 2015 Convertible Notes are convertible into were not included in the computation of diluted net income per common share because the inclusion of those shares would have been anti-dilutive for the three and nine months ended September 30, 2015.

8. INCOME TAX

In December 2013 and March 2014, the Company formed two taxable REIT subsidiaries ("TRS"), ACRC Lender W TRS LLC and ACRC Lender U TRS LLC, in order to issue and hold certain loans intended for sale. The TRS' income tax provision consisted of the following for the three and nine months ended September 30, 2016 and 2015 ($ in thousands):

	For the three months ended September 30,	For the nine months ended September 30,

	2016	2015	2016	2015
Current	$ 4	$ 3	$ 11	$ (15)
Deferred	—	—	—	—
Excise tax	157	—	157	—
Total income tax expense (benefit), including excise tax	$ 161	$ 3	$ 168	$ (15)

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The TRS’ recognize interest and penalties related to unrecognized tax benefits within income tax expense in the consolidated statements of operations. Accrued interest and penalties, if any, are included within other liabilities in the consolidated balance sheets.

For both the three and nine months ended September 30, 2016, the Company recorded an expense of $157 thousand for U.S. federal excise tax. Excise tax represents a 4% tax on the required amount of the Company’s ordinary income and net capital gains not distributed during the year. The quarterly expense is calculated in accordance with applicable tax regulations.

The following table is a reconciliation of the TRS' statutory U.S. federal income tax rate to the TRS' effective tax rate for the three and nine months ended September 30, 2016 and 2015:

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Federal statutory rate	35.0 %	35.0 %	35.0 %	35.0 %
State income taxes	4.4 %	3.6 %	4.4 %	3.6 %
Federal benefit of state tax deduction	(1.5)%	(1.3)%	(1.5)%	(1.3)%
Effective tax rate	37.9 %	37.3 %	37.9 %	37.3 %

As of September 30, 2016, tax years 2012 through 2015 remain subject to examination by taxing authorities. The Company does not have any unrecognized tax benefits and the Company does not expect that to change in the next 12 months.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows FASB ASC Topic 820-10, Fair Value Measurement (“ASC 820-10”), which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure requirements for fair value measurements. ASC 820-10 determines fair value to be the price that would be received for a financial instrument in a current sale, which assumes an orderly transaction between market participants on the measurement date. ASC 820-10 specifies a hierarchy of valuation techniques based on the inputs used in measuring fair value.

In accordance with ASC 820-10, the inputs used to measure fair value are summarized in the three broad levels listed below:

- Level I-Quoted prices in active markets for identical assets or liabilities.
- Level II-Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level III-Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the financial statements, for which it is practical to estimate the value. In cases where quoted market prices are not

available, fair values are based upon the application of discount rates to estimated future cash flows using market yields, or other valuation methodologies. Any changes to the valuation methodology will be reviewed by the Company's management to ensure the changes are appropriate. The methods used may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Company anticipates that the valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may fall within periods of market dislocation, during which price transparency may be reduced.

As of both September 30, 2016 and December 31, 2015, the Company did not have any assets or liabilities required to be recorded at fair value on a recurring basis.

As of September 30, 2016 and December 31, 2015, the carrying values and fair values of the Company's financial assets and liabilities recorded at cost are as follows ($ in thousands):

	Level in Fair Value Hierarchy	As of September 30, 2016 Carrying Value	Fair Value	December 31, 2015 Carrying Value	Fair Value
Financial assets:					
Loans held for investment	3	$1,473,920	$1,483,556	$1,174,391	$1,180,421
Financial liabilities:					
Secured funding agreements	2	$879,102	$879,102	$522,775	$522,775
Secured term loan	2	149,270	155,000	69,762	75,000
Commercial mortgage-backed securitization debt (consolidated VIE)	3	—	—	61,815	61,856
Collateralized loan obligation securitization debt (consolidated VIE)	3	57,787	57,830	192,528	193,419

The carrying values of cash and cash equivalents, restricted cash, interest receivable, due to affiliate liability and accrued expenses approximate their fair values due to their short-term nature.

Loans held for investment are recorded at cost, net of unamortized loan fees and origination costs and net of an allowance for loan losses. The Company may record fair value adjustments on a nonrecurring basis when it has determined that it is necessary to record a specific reserve against a loan and the Company measures such specific reserve using the fair value of the loan's collateral. To determine the fair value of the collateral, the Company may employ different approaches depending on the type of collateral. The Financing Agreements, CMBS debt and collateralized loan obligation ("CLO") debt are recorded at outstanding principal, which is the Company's best estimate of the fair value.

10. RELATED PARTY TRANSACTIONS

Management Agreement

The Company is party to a Management Agreement under which ACREM, subject to the supervision and oversight of the Company's board of directors, is responsible for, among other duties, (a) performing all of the Company's day-to-day functions, (b) determining the Company's investment strategy and guidelines in conjunction with the Company's board of directors, (c) sourcing, analyzing and executing investments, asset sales and financing, and (d) performing portfolio management duties. In addition, ACREM has an Investment Committee that oversees compliance with the Company's investment strategy and guidelines, investment portfolio holdings and financing strategy.

In exchange for its services, ACREM is entitled to receive a base management fee, an incentive fee, expense reimbursements, grants of equity-based awards pursuant to the Company's 2012 Equity Incentive Plan and a termination fee, if applicable.

The base management fee is equal to 1.5% of the Company's stockholders' equity per annum, which is calculated and payable quarterly in arrears in cash. For purposes of calculating the base management fee, stockholders' equity means: (a) the sum of (i) the net proceeds from all issuances of the Company's equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (ii) the Company's retained earnings at the end of the most recently completed fiscal quarter determined in accordance with GAAP (without

taking into account any non-cash equity compensation expense incurred in current or prior periods); less (b) (x) any amount that the Company has paid to repurchase the Company’s common stock since inception, (y) any unrealized gains and losses and other non-cash items that have impacted stockholders’ equity as reported in the Company’s consolidated financial statements prepared in accordance with GAAP, and (z) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between ACREM and the Company’s independent directors and approval by a majority of the Company’s independent directors. As a result, the Company’s stockholders’ equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders’ equity shown in the Company’s consolidated financial statements.

The incentive fee is an amount, not less than zero, equal to the difference between: (a) the product of (i) 20% and (ii) the difference between (A) the Company's Core Earnings (as defined below) for the previous 12 month period, and (B) the product of (1) the weighted average of the issue price per share of the Company's common stock of all of the Company's public offerings of common stock multiplied by the weighted average number of all shares of common stock outstanding including any restricted shares of the Company's common stock, restricted stock units or any shares of the Company's common stock not yet issued, but underlying other awards granted under the Company's 2012 Equity Incentive Plan (see Note 6 included in these consolidated financial statements) in the previous 12 month period, and (2) 8%; and (b) the sum of any incentive fees earned by ACREM with respect to the first three fiscal quarters of such previous 12 month period; provided, however, that no incentive fee is payable with respect to any fiscal quarter unless cumulative Core Earnings for the 12 most recently completed fiscal quarters is greater than zero. "Core Earnings" is a non-GAAP measure and is defined as GAAP net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that any of the Company's target investments are structured as debt and the Company forecloses on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), and one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between ACREM and the Company's independent directors and after approval by a majority of the Company's independent directors. For both the three and nine months ended September 30, 2016, $321 thousand of incentive fees were incurred. For both the three and nine months ended September 30, 2015, no incentive fees were incurred.

The Company reimburses ACREM at cost for operating expenses that ACREM incurs on the Company's behalf, including expenses relating to legal, financial, accounting, servicing, due diligence and other services.

The Company will not reimburse ACREM for the salaries and other compensation of its personnel, except for the allocable share of the salaries and other compensation of the Company's (a) Chief Financial Officer, based on the percentage of his time spent on the Company's affairs and (b) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment professional personnel of ACREM or its affiliates who spend all or a portion of their time managing the Company's affairs based on the percentage of their time spent on the Company's affairs. The Company is also required to pay its pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of ACREM and its affiliates that are required for the Company's operations. The term of the Management Agreement ends on May 1, 2017, with automatic one-year renewal terms thereafter. Except under limited circumstances, upon a termination of the Management Agreement, the Company will pay ACREM a termination fee equal to three times the average annual base management fee and incentive fee received by ACREM during the 24-month period immediately preceding the most recently completed fiscal quarter prior to the date of termination, each as described above.

Certain of the Company's subsidiaries, along with the Company's lenders under certain of the Company's Secured Funding Agreements, as well as under the CLO have entered into various servicing agreements with ACREM's subsidiary servicer, Ares Commercial Real Estate Servicer LLC ("ACRES"), a Standard & Poor's-rated commercial special servicer that is included on Standard & Poor's Select Servicer List. Effective January 1, 2015, ACREM transferred primary servicing of the Company's loans held for investment to ACRE Capital. The Company's Manager will specially service, as needed, certain of the Company's investments. Effective May 1, 2012, ACRES agreed that no servicing fees pursuant to these servicing agreements would be charged to the Company or its subsidiaries by ACRES or the Manager for so long as the Management Agreement remains in effect, but that ACRES will continue to receive reimbursement for overhead related to servicing and operational activities pursuant to the terms of the Management Agreement.

Summarized below are the related party costs incurred by the Company related to continuing operations for the three and nine months ended September 30, 2016 and 2015 and amounts payable to the Company's Manager as of

September 30, 2016 and December 31, 2015 ($ in thousands):

	Incurred				Payable	
	For the three months ended September 30,		For the nine months ended September 30,		As of	
	2016	2015	2016	2015	September 30, 2016	December 31, 2015
Affiliate Payments						
Management fees	$1,369	$1,351	$4,059	$4,040	$1,369	$ 1,357
Incentive fees	321	—	321	—	321	—
General and administrative expenses	860	840	2,417	2,591	860	