



EXANTAS

2019 Annual Report

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2019

or

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

For the transition period from _____ to _____

Commission file number 1-32733



EXANTAS CAPITAL CORP.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

20-2287134

(I.R.S. Employer
Identification No.)

717 Fifth Avenue, New York, New York 10022

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **212-621-3210**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	XAN	New York Stock Exchange
8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock	XANPrC	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the closing price of such stock on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2019) was approximately \$341,950,894.

The number of outstanding shares of the registrant's common stock on March 6, 2020 was 32,061,203 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days.

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
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FORWARD-LOOKING STATEMENTS

In this annual report on Form 10-K, references to “Company,” “we,” “us,” or “our” refer to Exantas Capital Corp. and its subsidiaries; references to the Company’s “Manager” refer to Exantas Capital Manager Inc., an indirect wholly-owned subsidiary of C-III Capital Partners LLC, unless specifically stated otherwise or the context otherwise indicates. This report contains certain forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expects,” “intend,” “may,” “plan,” “potential,” “project,” “should,” “will” and “would” or the negative of these terms or other comparable terminology.

Forward-looking statements contained in this report are based on our beliefs, assumptions and expectations regarding our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Forward-looking statements we make in this report are subject to various risks and uncertainties that could cause actual results to vary from our forward-looking statements, including:

- the factors described in this report, including those set forth under the sections captioned “Risk Factors,” “Business” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations”;
- changes in our industry, interest rates, the debt securities markets, real estate markets or the general economy;
- increased rates of default and/or decreased recovery rates on our investments;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in governmental regulations, tax rates and similar matters;
- changes in our business strategy;
- availability of investment opportunities in commercial real estate and commercial real estate-related assets;
- the degree and nature of our competition;
- the adequacy of our cash reserves and working capital; and
- the timing of cash flows, if any, from our investments.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

General

We are a Maryland corporation, incorporated in 2005, and a real estate finance company that is organized and conducts our operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. Our investment strategy is primarily focused on originating, holding and managing commercial real estate, or CRE, mortgage loans and other commercial real estate-related debt investments. We are externally managed by Exantas Capital Manager Inc., or our Manager, which is an indirect wholly-owned subsidiary of C-III Capital Partners LLC, or C-III, a leading CRE investment management and services company engaged in a broad range of activities. Our Manager draws upon the management teams of C-III and its subsidiaries and its collective investment experience to provide its services.

Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategies. We finance a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of our investments, and we seek to mitigate interest rate risk through derivative investments.

Our investment strategy targets the following CRE credit investments, including:

- Floating and fixed-rate first mortgage loans, which we refer to as whole loans;
- First priority interests in first mortgage loans, which we refer to as A-notes;
- Subordinated interests in first mortgage loans, which we refer to as B-notes;
- Mezzanine debt related to CRE that is senior to the borrower's equity position but subordinated to other third-party debt;
- Preferred equity investments related to CRE that are subordinate to first mortgage loans and are not collateralized by the property underlying the investment;
- Commercial mortgage-backed securities, which we refer to as CMBS; and
- CRE investments.

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance our ownership of those assets, including corporate debt and from hedging interest rate risks.

We typically target transitional floating-rate CRE loans between \$5.0 million and \$20.0 million. During the year ended December 31, 2019, we acquired 28 CRE loans with total commitments of \$210.8 million from C-III Commercial Mortgage LLC, or C-III Commercial Mortgage, an affiliate of our Manager, and we originated 45 CRE loans with total commitments of \$731.2 million. At December 31, 2019, our CRE loan portfolio comprised approximately \$1.8 billion of floating-rate CRE whole loans with a weighted average spread of 3.49% over the one-month London Interbank Offered Rate, or LIBOR. Additionally, our CRE loan portfolio comprised one \$4.7 million mezzanine loan and \$26.2 million of preferred equity investments at December 31, 2019. During the year ended December 31, 2019, we acquired CMBS with total face values of \$147.2 million. At December 31, 2019, our \$520.7 million CMBS portfolio, at fair value, comprised \$382.7 million of floating-rate bonds and \$138.0 million of fixed-rate bonds. We expect to continue to diversify and extend the duration of our CRE portfolio by investing in CMBS where we see attractive investment opportunities.

In February 2020, we announced the expansion of our CRE debt platform to include fixed-rate CRE loans through the integration of C-III Commercial Mortgage personnel with our Manager. We expect the origination and sales activities related to our fixed-rate CRE loan platform to be conducted in a taxable REIT subsidiary, or TRS. The loans will be sold to CMBS securitizations. Revenues are generated from the gain on sale of loans, earned as a percentage of the unpaid principal balance of loans sold. Pricing risk created by the movement of interest rates from the date the loan is originated to the date the loan is sold is hedged through the use of derivative financial instruments. We expect the integration of C-III Commercial Mortgage personnel to provide our borrowers with a comprehensive offering of transitional to permanent financing solutions.

Our Business Strategy

The core components of our business strategy are:

Investment in CRE assets. We are currently invested in CRE whole loans, CRE mezzanine loans, CRE preferred equity interests and investment grade and non-investment grade CMBS. Our goal is to allocate 90% to 100% of our equity to CRE credit investments. At December 31, 2019, our equity was allocated as follows: 95% in core assets and 5% in non-core assets.

Managing our investment portfolio. At December 31, 2019, we managed \$2.5 billion of assets, including \$980.6 million of assets that were financed and held in variable interest entities. The core of our management process is credit analysis, which our Manager, with the assistance of C-III, uses to actively monitor our existing investments and as a basis for evaluating new investments. Senior management of our Manager and C-III have extensive experience in underwriting the credit risk associated with our targeted asset classes and conduct detailed due diligence on all investments. After we make investments, our Manager actively monitors them for early detection of trouble or deterioration. If a default occurs, we will use our senior management team's asset management experience in seeking to mitigate the severity of any loss and to optimize the recovery from assets collateralizing the investment.

Managing our interest rate, pricing and liquidity risk. We engage in a number of business activities that are vulnerable to interest rate, pricing and liquidity risk and we seek to manage those risks. Our hedging strategy intends to take advantage of commonly available derivative contracts, including interest rate swaps and caps, to reduce, to the extent possible, those risks. The pricing risks on our new fixed-rate CRE loan platform will be managed using these contracts. The risks on our short-term financing agreements, principally repurchase agreements, are managed by limiting our financial exposure under the agreements to either a stated investment amount or a fixed guaranty amount. The risks on our long-term financing agreements, principally term financing facilities, are managed by seeking to match the maturity and repricing dates of our financed investments with the maturities and repricing dates of our long-term financing facilities. Additionally, we match investment and financing maturity and repricing dates using securitization vehicles structured by our Manager and, subject to the availability of markets for securitization financings, we expect to continue to use securitizations in the future to accomplish our long-term match funding financing strategy.

At December 31, 2019, our CRE securitizations and repurchase facilities with debt outstanding were as follows (in thousands):

	Outstanding Borrowings ⁽¹⁾	Value of Collateral	Equity at Risk ⁽²⁾
At December 31, 2019:			
CRE Securitizations			
XAN 2018-RSO6	\$ 175,766	\$ 293,890	\$ 96,195
XAN 2019-RSO7	570,672	687,037	\$ 104,817
CRE - Term Repurchase Facilities			
Wells Fargo Bank, N. A.	225,217	291,903	\$ 67,007
Barclays Bank PLC	111,881	145,035	\$ 32,967
JPMorgan Chase Bank, N.A.	207,807	268,283	\$ 60,159
CMBS - Short-Term Repurchase Agreements			
Deutsche Bank Securities Inc.	37,141	57,331	\$ 20,329
JP Morgan Securities LLC	33,703	42,075	\$ 8,512
Barclays Capital Inc.	87,643	112,939	\$ 25,532
RBC Capital Markets, LLC	34,829	47,081	\$ 12,341
RBC (Barbados) Trading Bank Corporation	181,584	224,972	\$ 43,722
Total	<u>\$ 1,666,243</u>	<u>\$ 2,170,546</u>	

(1) Securitizations include deferred debt issuance costs and repurchase agreements include accrued interest payable and deferred debt issuance costs.

(2) Repurchase agreements include accrued interest receivable and accrued interest payable.

These borrowings charge a floating rate of interest. For more information concerning our CRE securitizations, term facilities and repurchase agreements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," and Note 10 contained in "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements" of this report. We continuously monitor our compliance with all of the financial covenants. We were in compliance with all financial covenants, as defined in the respective agreements, at December 31, 2019.

Diversification of investments. We manage our investment risk by maintaining a diversified portfolio of CRE mortgage loans and other CRE-related investments. As funds become available for investment or reinvestment, we seek to maintain diversification by property type and geographic location while allocating our capital to investment opportunities that we believe are the most economically attractive. The percentage of assets that we have invested in certain non-qualifying, non-core and other real estate-related investments is subject to the federal income tax requirements for REIT qualification and the requirements for exclusion from regulation under the Investment Company Act of 1940, or the Investment Company Act.

Our Operating Policies

Investment guidelines. We have established investment policies, procedures and guidelines that are reviewed and approved by our Manager's investment committee and our board of directors, or our Board. The investment committee and/or our Board, as applicable, meets regularly to consider and approve proposed specific investments. Our Board monitors the execution of our overall investment strategies and targeted asset classes. We acquire our investments primarily for income. We do not have a policy that requires us to focus our investments in one or more particular geographic areas or industries.

Financing policies. We use leverage in order to increase potential returns to our stockholders and for financing our portfolio. We do not speculate on changes in interest rates. Although we have identified leverage targets for each of our targeted asset classes, our investment policies do not have any minimum or maximum leverage limits. Our Manager’s investment committee has the discretion, without the need for further approval by our Board, to increase the amount of leverage we incur above our targeted range for individual asset classes subject, however, to any leverage constraints that may be imposed by existing financing arrangements.

We use borrowing and securitization strategies to accomplish our long-term match funding financing strategy. Based upon current conditions in the credit markets for collateralized debt obligations, or CDOs, and collateralized loan obligations (sometimes, collectively, referred to as CDOs) we expect to modestly increase leverage through new CRE debt securitizations and the continued use of our term repurchase and short-term repurchase facilities in 2020. We may also seek other credit arrangements to finance new investments that we believe can generate attractive risk-adjusted returns, subject to availability.

Hedging and interest rate management policies. We use derivative instruments to hedge a portion of the interest rate risk associated with our borrowings and pricing risk associated with our fixed-rate loans. Under the federal income tax laws applicable to REITs, we generally will be able to enter into transactions to hedge indebtedness that we may incur, or plan to incur, to acquire or carry real estate assets, provided that our total gross income from qualifying hedges does not exceed 25% of our total gross income and non-qualifying hedges do not exceed 5% of our total gross income. We generally seek to minimize interest rate risk and pricing risk with a strategy that is expected to result in the least amount of volatility under accounting principles generally accepted in the United States of America, or GAAP, while still meeting our strategic economic objectives and maintaining adequate liquidity and flexibility. These hedging transactions may include interest rate swaps, collars, caps or floors, puts, calls, options and foreign currency exchange protection.

Credit and risk management policies. Our Manager focuses its attention on credit and risk assessment from the earliest stage of the investment selection process. In addition, our Manager screens and monitors all potential investments to determine their impact on maintaining our REIT qualification under federal income tax laws and our exclusion from investment company status under the Investment Company Act. Portfolio risks, including risks related to credit losses, interest rate volatility, liquidity and counterparty credit, are generally managed on an asset and portfolio type basis by our Manager.

General

The table below summarizes the amortized costs and net carrying amounts of our core and non-core investments at December 31, 2019, classified by asset type (dollars in thousands, except amounts in footnotes):

At December 31, 2019	Amortized Cost	Net Carrying Amount	Percent of Portfolio	Weighted Average Coupon
Core Assets:				
CRE whole loans ⁽¹⁾⁽²⁾	\$ 1,749,093	\$ 1,747,633	75.10%	5.52%
CRE mezzanine loan and preferred equity investments ⁽²⁾	30,848	30,848	1.33%	11.18%
CMBS, fixed-rate ⁽³⁾	132,235	138,039	5.93%	4.10%
CMBS, floating-rate ⁽³⁾	382,659	382,675	16.44%	4.39%
Total Core Assets	<u>2,294,835</u>	<u>2,299,195</u>	<u>98.80%</u>	
Non-Core Assets:				
Legacy CRE assets ⁽⁴⁾⁽⁵⁾⁽⁶⁾	35,539	28,004	1.20%	1.47%
Total Core and Non-Core Assets	<u>\$ 2,330,374</u>	<u>\$ 2,327,199</u>	<u>100.00%</u>	

(1) Net carrying amount includes an allowance for loan losses of \$1.5 million at December 31, 2019.

(2) Classified as CRE loans on the consolidated balance sheets.

(3) Classified as investment securities available-for-sale on the consolidated balance sheets.

(4) Includes one legacy CRE loan with an amortized cost of \$11.5 million classified as a CRE loan on the consolidated balance sheet as we intend to hold this loan to maturity.

(5) Net carrying amount includes a lower of cost or market value adjustment of \$7.5 million at December 31, 2019.

(6) In November 2019, we foreclosed on the remaining legacy CRE loan held for sale (see Note 23 contained in “Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements”).

CRE Debt Investments

Floating-rate whole loans. We predominantly originate floating-rate first mortgage loans, or whole loans, directly to borrowers. The direct origination of whole loans enables us to better control the structure of the loans and to maintain direct lending relationships with borrowers. Additionally, we may acquire whole loans from third parties that conform to our investment strategy. We may create tranches of a loan we originate, consisting of an A-note (described below) and a B-note (described below), as well as mezzanine loans or other participations, which we may hold or sell to third parties. We do not obtain ratings on these investments. With respect to our portfolio at December 31, 2019, our whole loan investments had loan-to-collateral value, or LTV, ratios that typically do not exceed 85%. Typically, our whole loans are structured with an original term of up to three years, with one-year extensions that bring the loan to a maximum term of five years. Substantially all of our CRE loans held at December 31, 2019 were whole loans. We expect to hold our whole loans to maturity.

Fixed-rate whole loans. We may originate fixed-rate first mortgage loans that are secured by cash-flowing commercial real estate and are available for sale to securitizations. These loans are typically structured with ten-year terms but may range from five to ten years. Fixed-rate whole loans are originated, underwritten, approved and funded using the same comprehensive legal and underwriting approach, process and personnel used to originate our floating-rate whole loans. Although our primary intent is to sell our fixed-rate whole loans to CMBS trusts, we may seek to retain certain loans on our balance sheet. We did not hold any fixed-rate whole loans at December 31, 2019. We will hold these fixed-rate whole loans in our TRS.

Senior interests in whole loans (A-notes). We may invest in senior interests in whole loans, referred to as A-notes, either directly originated or purchased from third parties. We do not intend to obtain ratings on these investments. We expect our typical A-note investments to have LTV ratios not exceeding 70%, and will generally be structured with an original term of up to three years, with one-year extensions that bring the loan to a maximum term of five years. We expect to hold any A-note investments to maturity. We did not hold any A-note investments at December 31, 2019.

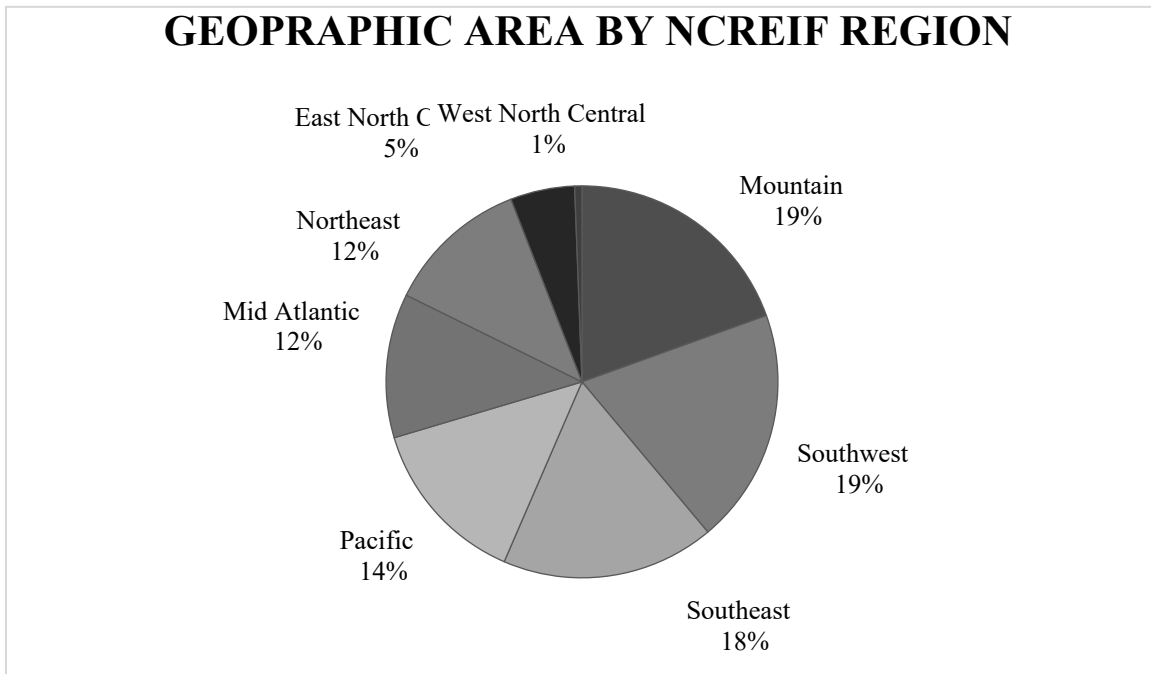
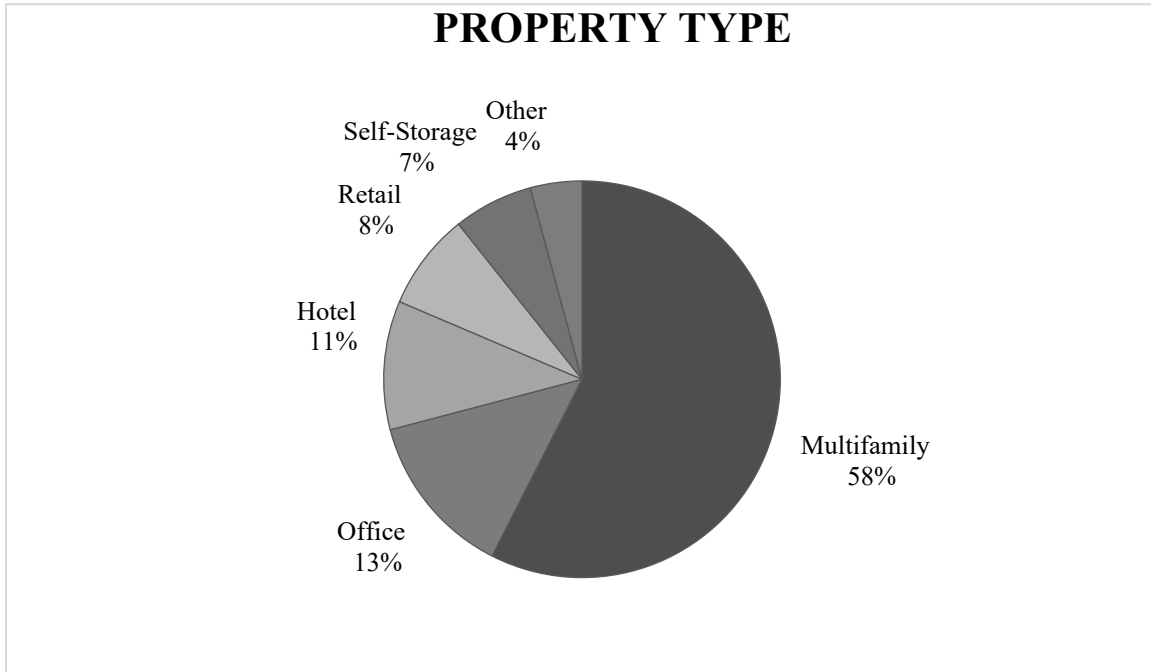
Subordinate interests in whole loans (B-notes). To a lesser extent, we may invest in subordinate interests in whole loans, referred to as B-notes, which we will either directly originate or purchase from third parties. B-notes are loans secured by a first mortgage but are subordinated to an A-note. The subordination of a B-note is generally evidenced by an intercreditor or participation agreement between the holders of the A-note and the B-note. In some instances, the B-note lender may require a security interest in the stock or other equity interests of the borrower as part of the transaction. B-note lenders have the same obligations, collateral and borrower as the A-note lender, but typically are subordinated in recovery upon a default to the A-note lender. B-notes share certain credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A-note. We do not intend to obtain ratings on these investments. We expect our typical B-note investments to have LTV ratios between 55% and 80%, and will generally be structured with an original term of up to three years, with one-year extensions that bring the loan to a maximum term of five years. We expect to hold any B-note investments to maturity. We did not hold any B-note investments at December 31, 2019.

In addition to the accrued interest receivable on a B-note, we may earn fees charged to the borrower under the note or additional income by receiving principal payments in excess of the discounted price (below par value) we paid to acquire the note. Our ownership of a B-note with controlling class rights may, in the event the financing fails to perform according to its terms, cause us to pursue our remedies as owner of the B-note, which may include foreclosure on, or modification of, the note. In some cases, the owner of the A-note may be able to foreclose or modify the note against our wishes as owner of the B-note. As a result, our economic and business interests may diverge from the interests of the owner of the A-note.

Mezzanine financing. We may invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to the mortgage loan on, a property. A mezzanine loan is typically secured by a pledge of the ownership interests in the entity that directly owns the real property or by a second lien mortgage loan on the property. In addition, mezzanine loans typically include credit enhancements such as letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. A mezzanine loan may be structured so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. Mezzanine loans may also have prepayment lockouts, penalties, minimum profit hurdles and other mechanisms to protect and enhance returns in the event of premature repayment. We expect our mezzanine investments to have LTV ratios between 65% and 90% with stated maturities from three to five years. We expect to hold mezzanine loans to maturity. At December 31, 2019, our loan portfolio included two mezzanine loans.

Preferred equity investments. We may invest in preferred equity investments in entities that own or acquire CRE properties. These investments are subordinate to first mortgage loans and mezzanine debt and are typically structured to provide some credit enhancement differentiating it from the common equity. We expect our preferred equity investments to have LTV ratios between 65% and 90% with stated maturities from three to eight years. We expect to hold preferred equity investments to maturity. At December 31, 2019, we had two preferred equity investments.

The following charts describe the property type and the geographic breakdown, by National Council of Real Estate Investment Fiduciaries, or NCREIF, region of our CRE loan portfolio at December 31, 2019 (based on carrying value):



The total loan portfolio, at carrying value, was \$1.8 billion at December 31, 2019. “Other” property types included manufactured housing (3.5%) and industrial (0.7%).

The Mountain region constituted 19.5% of our portfolio, of which 9.0% was in Arizona, and its collateral comprised 76.1% multifamily properties and 19.8% hotel properties. The Southwest region constituted 19.4% of our portfolio, of which 17.5% was in Texas, and its collateral comprised 76.1% multifamily properties. The Southeast region constituted 17.6% of our portfolio, of which 10.5% was in Florida, and its collateral comprised 61.5% multifamily properties. In the Pacific region, California constituted 12.5% of the total loan portfolio. We view our investment and credit strategies as being adequately diversified across property types in the Mountain, Southwest, Southeast and Pacific regions.

Legacy CRE Loans

As part of the November 2016 Board-approved strategic plan, or the Plan, certain underperforming legacy CRE loans were classified as held for sale at December 31, 2016. At December 31, 2019, we had one remaining legacy CRE asset, in connection with the loan's foreclosure in November 2019, classified as held for sale.

CMBS

We invest in CMBS, which are securities that are secured by, or evidence interests in, a pool of mortgage loans secured by commercial properties. These securities may be senior or subordinate and may be either investment grade or non-investment grade. The majority of our CMBS investments have been rated by at least one nationally recognized rating agency.

The yields on CMBS depend on the timely payment of interest and principal due on the underlying mortgage loans, and defaults by the borrowers on such loans may ultimately result in deficiencies and defaults on the CMBS. In the event of a default, the trustee for the benefit of the holders of CMBS has recourse only to the underlying pool of mortgage loans and, if a loan is in default, to the mortgaged property securing such mortgage loan. After the trustee has exercised all of the rights of a lender under a defaulted mortgage loan and the related mortgaged property has been liquidated, no further remedy is available. However, holders of relatively senior classes of a CMBS trust will be protected to a certain degree by the structural features of the securitization transaction, such as the subordination of junior classes of the CMBS trust.

CRE Investments

We may invest directly in the ownership of CRE equity investments by restructuring CRE loans and taking control of the properties where we believe we can protect capital and ultimately generate capital appreciation. We may acquire CRE equity investments through a joint venture or wholly-owned subsidiary. We intend to primarily use an affiliate of our Manager to manage the CRE equity investments when held.

Competition

See "Item 1A. Risk Factors - Risks Related to Our Investments - We may face competition for suitable investments."

Management Agreement

We have a management agreement, amended and restated on December 14, 2017 and further amended on February 20, 2020, or the Management Agreement, with our Manager pursuant to which our Manager provides the day-to-day management of our operations. The Management Agreement requires our Manager to manage our business affairs in conformity with the policies and investment guidelines established by our Board. Our Manager provides its services under the supervision and direction of our Board. Our Manager is responsible for the selection, purchase and sale of our portfolio investments, our financing activities and providing us with investment advisory services. Our Manager and its affiliates also provide us with a Chief Financial Officer and a sufficient number of additional accounting, finance, tax and investor relations professionals. Our Manager receives fees and is reimbursed for its expenses as follows:

- A monthly base management fee equal to 1/12th of the amount of our equity multiplied by 1.50%; however, the base management fee was fixed at \$937,500 per month from October 1, 2017 through December 31, 2018. Under the Management Agreement, "equity" is equal to the net proceeds from issuances of shares of capital stock (or the value of common shares upon the conversion of convertible securities), less offering-related costs, plus or minus our retained earnings (excluding non-cash equity compensation incurred in current or prior periods) less all amounts we have paid for common stock and preferred stock repurchases. The calculation is adjusted for one-time events due to changes in GAAP as well as other non-cash charges, upon approval of our independent directors.

- Incentive compensation, calculated quarterly as follows: (A) 20% of the amount by which our Core Earnings (as defined in the Management Agreement) for a quarter exceeds the product of (i) the weighted average of (x) the per share book value of our common shares at September 30, 2017 (subject to adjustments for certain items of income or loss from operations or gain or loss on resolutions of the Plan assets from October 1, 2017 through December 31, 2018) and (y) the per share price (including the conversion price, if applicable) paid for our common shares in each offering (or issuance upon the conversion of convertible securities) by us subsequent to September 30, 2017, multiplied by (ii) the greater of (x) 1.75% and (y) 0.4375% plus one-fourth of the Ten Year Treasury Rate for such quarter; multiplied by (B) the weighted average number of common shares outstanding during such quarter; subject to adjustment (a) to exclude events pursuant to changes in GAAP or the application of GAAP as well as non-recurring or unusual transactions or events, after discussion between our Manager and the independent directors and approval by a majority of the independent directors in the case of non-recurring or unusual transactions or events, and (b) to deduct an amount equal to any fees paid directly by a TRS (or any subsidiary thereof) to employees, agents and/or affiliates of the Manager with respect to profits of such TRS (or subsidiary thereof) generated from the services of such employees, agents and/or affiliates, the fee structure of which shall have been approved by a majority of the independent directors and which fees may not exceed 20% of the net income (before such fees) of such TRS (or subsidiary thereof).
- Per-loan underwriting and review fees in connection with valuations of and potential investments in certain subordinate commercial mortgage pass-through certificates, in amounts approved by a majority of the independent directors.
- Reimbursement of expenses for personnel of our Manager or its affiliates for their services in connection with the making of fixed-rate commercial real estate loans by us, in an amount equal to one percent of the principal amount of each such loan made.
- Reimbursement of out-of-pocket expenses and certain other costs incurred by our Manager and its affiliates that relate directly to us and our operations.
- Reimbursement of our Manager's and its affiliates' expenses for (A) the wages, salaries and benefits of our Chief Financial Officer, and (B) a portion of the wages, salaries and benefits of accounting, finance, tax and investor relations professionals, in proportion to such personnel's percentage of time allocated to our operations.

Incentive compensation is calculated and payable quarterly to our Manager to the extent it is earned. Up to 75% of the incentive compensation is payable in cash and at least 25% is payable in the form of an award of common stock. Our Manager may elect to receive more than 25% of its incentive compensation in common stock. All shares are fully vested upon issuance; however, our Manager may not sell such shares for one year after the incentive compensation becomes due and payable unless the Management Agreement is terminated. Shares payable as incentive compensation are valued as follows:

- if such shares are traded on a securities exchange, at the average of the closing prices of the shares on such exchange over the 30-day period ending three days prior to the issuance of such shares;
- if such shares are actively traded over-the-counter, at the average of the closing bid or sales price as applicable over the 30-day period ending three days prior to the issuance of such shares; and
- if there is no active market for such shares, at the fair market value as reasonably determined in good faith by our Board.

The Management Agreement's current contract term ends on March 31, 2020, and the agreement provides for automatic one year renewals on such date and on each March 31 thereafter until terminated. Our Board reviews our Manager's performance annually. The Management Agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the management fees payable to our Manager are not fair, subject to our Manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees. Our Board must provide 180 days' prior notice of any such termination. If we terminate the Management Agreement, our Manager is entitled to a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by our Manager during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

We may also terminate the Management Agreement for cause with 30 days' prior written notice from our Board. No termination fee is payable in the event of a termination for cause. The Management Agreement defines cause as:

- our Manager's continued material breach of any provision of the Management Agreement following a period of 30 days after written notice thereof;
- our Manager's fraud, misappropriation of funds, or embezzlement against us;

- our Manager’s gross negligence in the performance of its duties under the Management Agreement;
- the dissolution, bankruptcy or insolvency, or the filing of a voluntary bankruptcy petition by our Manager; or
- a change of control (as defined in the Management Agreement) of our Manager if a majority of our independent directors determines, at any point during the 18 months following the change of control, that the change of control was detrimental to the ability of our Manager to perform its duties in substantially the same manner conducted before the change of control.

Cause does not include unsatisfactory performance that is materially detrimental to our business.

Our Manager may terminate the Management Agreement at its option, (A) in the event that we default in the performance or observance of any material term, condition or covenant contained in the Management Agreement and such default continues for a period of 30 days after written notice thereof, or (B) without payment of a termination fee by us, if we become regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately before such event.

Regulatory Aspects of Our Investment Strategy: Exclusion from Regulation Under the Investment Company Act

We operate our business so as to be excluded from regulation under the Investment Company Act. Because we conduct our business through wholly-owned subsidiaries, we must ensure not only that we qualify for an exclusion from regulation under the Investment Company Act, but also that each of our subsidiaries also qualifies.

We believe that RCC Real Estate, Inc., or RCC RE, the subsidiary that at December 31, 2019 held substantially all of our CRE loan assets, is excluded from Investment Company Act regulation under Section 3(c)(5)(C), a provision designed for companies that do not issue redeemable securities and are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. To qualify for this exclusion, at least 55% of RCC RE’s assets must consist of mortgage loans and other assets that are considered the functional equivalent of mortgage loans for purposes of the Investment Company Act and interests in real properties, which we refer to as Qualifying Interests. Moreover, 80% of RCC RE’s assets must consist of Qualifying Interests and other real estate-related assets. RCC RE has not issued, and does not intend to issue, redeemable securities.

We treat our investments in CRE whole loans, A-notes, specific types of B-notes and specific types of mezzanine loans as Qualifying Interests for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the Securities and Exchange Commission, or SEC, or its staff. We believe that SEC staff guidance allows us to treat B-notes as Qualifying Interests where we have unilateral rights to instruct the servicer to foreclose upon a defaulted mortgage loan, replace the servicer in the event the servicer, in its discretion, elects not to foreclose on such a loan, and purchase the A-note in the event of a default on the mortgage loan. We believe, based upon an analysis of existing SEC staff guidance, that we may treat mezzanine loans as Qualifying Interests where (i) the borrower is a special purpose bankruptcy-remote entity whose sole purpose is to hold all of the ownership interests in another special purpose entity that owns commercial real property, (ii) both entities are organized as limited liability companies or limited partnerships, (iii) under their organizational documents and the loan documents, neither entity may engage in any other business, (iv) the ownership interests of either entity have no value apart from the underlying real property which is essentially the only asset held by the property-owning entity, (v) the value of the underlying property in excess of the amount of senior obligations is in excess of the amount of the mezzanine loan, (vi) the borrower pledges its entire interest in the property-owning entity to the lender which obtains a perfected security interest in the collateral and (vii) the relative rights and priorities between the mezzanine lender and the senior lenders with respect to claims on the underlying property are set forth in an intercreditor agreement between the parties which gives the mezzanine lender certain cure and purchase rights in case there is a default on the senior loan. If the SEC staff provides future guidance that these investments are not Qualifying Interests, then we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate-related assets or miscellaneous assets, as appropriate. Historically, we have held “whole pool certificates” in mortgage loans, although, at December 31, 2019 and 2018, we had no whole pool certificates in our portfolios. Pursuant to existing SEC staff guidance, we consider whole pool certificates to be Qualifying Interests. A whole pool certificate is a certificate that represents the entire beneficial interest in an underlying pool of mortgage loans. By contrast, a certificate that represents less than the entire beneficial interest in the underlying mortgage loans is not considered to be a Qualifying Interest for purposes of the 55% test, but constitutes a real estate-related asset for purposes of the 80% test. We do not expect that investments in asset-backed securities, syndicated corporate loans, lease receivables, trust preferred securities or private equity will constitute Qualifying Interests. Moreover, to the extent that these investments are not backed by mortgage loans or other interests in real estate, they will not constitute real estate-related assets. Instead, they will constitute miscellaneous assets, which can constitute no more than 20% of RCC RE’s assets.

To the extent RCC RE holds its CRE loan assets through wholly or majority-owned CRE debt securitization subsidiaries, RCC RE also intends to conduct its operations so that it will not come within the definition of an investment company set forth in Section 3(a)(1)(C) of the Investment Company Act because less than 40% of the value of its total assets (exclusive of government securities and cash items) on an unconsolidated basis will consist of “investment securities,” which we refer to as the 40% test. “Investment securities” exclude U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. Certain of the wholly-owned CRE debt securitization subsidiaries of RCC RE rely on Section 3(c)(5)(C) for their Investment Company Act exemption, with the result that RCC RE’s interests in the CRE debt securitization subsidiaries do not constitute “investment securities” for the purpose of the 40% test.

Our other subsidiaries, RCC Commercial, Inc., or RCC Commercial, RCC Commercial II, Inc., or Commercial II, RCC Commercial III, Inc., or Commercial III, RCC TRS, LLC, or RCC TRS, Resource TRS, LLC, or Resource TRS, RSO EquityCo, LLC, or RSO Equity, RCC Residential Portfolio, Inc., or RCC Resi Portfolio and Exantas Real Estate TRS, Inc., or XAN RE TRS, do not qualify for the Section 3(c)(5)(C) exclusion. However, we believe they qualify for exclusion under either Section 3(c)(1) or 3(c)(7). As required by these exclusions, we will not allow any of these entities to make, or propose to make, a public offering of its securities. In addition, with respect to those subsidiaries for which we rely upon the Section 3(c)(1) exclusion, and as required thereby, we limit the number of holders of their securities to not more than 100 persons calculated in accordance with the attribution rules of Section 3(c)(1), and with respect to those subsidiaries for which we rely on the Section 3(c)(7) exclusion, and as required thereby, we limit ownership of their securities to “qualified purchasers.” If we form other subsidiaries, we must ensure that they qualify for an exemption or exclusion from regulation under the Investment Company Act.

Moreover, we must ensure that Exantas Capital Corp. itself qualifies for an exclusion from regulation under the Investment Company Act. We do so by monitoring the value of our interests in our subsidiaries so that we can ensure that Exantas Capital Corp. satisfies the 40% test. Our interest in RCC RE does not constitute an “investment security” for purposes of the 40% test, but our interests in RCC Commercial, Commercial II, Commercial III, RCC TRS, Resource TRS, RSO Equity, RCC Resi Portfolio and XAN RE TRS do. Accordingly, we must monitor the value of our interests in those subsidiaries to ensure that the value of our interests in them does not exceed 40% of the value of our total assets.

We have not received, nor have we sought, a no-action letter from the SEC regarding how our investment strategy fits within the exclusions from regulation under the Investment Company Act. To the extent that the SEC provides more specific or different guidance regarding the treatment of assets as Qualifying Interests or real estate-related assets, we may have to adjust our investment strategy. Any additional or different guidance from the SEC could inhibit our ability to pursue our investment strategy.

Employees

We have no direct employees. Under our Management Agreement, our Manager provides us with all management and support personnel and services necessary for our day-to-day operations. To provide its services, our Manager draws upon the expertise and experience of C-III and Resource America, Inc., or Resource America. Under our Management Agreement, our Manager and its affiliates also must provide us with our Chief Financial Officer, and a sufficient number of additional accounting, finance, tax and investor relations professionals. We bear the expense of the wages, salaries and benefits of our Chief Financial Officer, and the accounting, finance, tax and investor relations professionals to the extent dedicated to us.

Corporate Governance and Internet Address

We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. Our Board consists of a majority of independent directors, as defined in the Securities Exchange Act of 1934, as amended, and relevant New York Stock Exchange rules. The audit, compensation and nominating and governance committees of our Board are composed exclusively of independent directors. We have adopted corporate governance guidelines and a code of business conduct and ethics, which delineate our standards for our officers and directors and the employees of our Manager or its affiliates who provide us services.

Our internet address is www.exantas.com. We make available, free of charge through a link on our site, all reports filed with or furnished to the SEC as soon as reasonably practicable after such filing or furnishing. Our site also contains our code of business conduct and ethics, corporate governance guidelines and the charters of the audit committee, nominating and governance committee and compensation committee of our Board. A complete list of our filings is available on the SEC’s website at <http://www.sec.gov>.

ITEM 1A. RISK FACTORS

This section describes material risks affecting our business. In connection with the forward-looking statements that appear in this annual report, you should carefully review the factors discussed below and the cautionary statements referred to in “Forward-Looking Statements.”

Impact of Current Economic Conditions

If current economic and market conditions were to deteriorate, our ability to obtain the capital and financing necessary for growth may be limited, which could limit our profitability, ability to make distributions and the market price of our common stock.

We depend upon the availability of adequate debt and equity capital for growth in our operations. Although historically we have been able to raise both debt and equity capital, recent market and economic conditions have made obtaining additional equity capital highly dilutive to existing shareholders and may possibly affect our ability to raise debt capital. If current economic conditions were to deteriorate, our ability to access debt or equity capital on acceptable terms, could be further limited, which could limit our ability to generate growth, our profitability, our ability to make distributions and the market price of our common stock. In addition, as a REIT, we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and are therefore not able to retain significant amounts of our earnings for new investments. While we may, through our TRSs retain earnings as new capital, we are subject to REIT qualification requirements that limit the value of TRS stock and securities relative to the other assets owned by a REIT.

We cannot predict the effects on us of actions taken by the U.S. government and governmental agencies in response to economic conditions in the United States.

In response to economic and market conditions, U.S. and foreign governments and governmental agencies have established or proposed a number of programs designed to improve the financial system and credit markets, and to stimulate economic growth. Many governments, including federal, state and local governments in the U.S., are incurring substantial budget deficits and seeking financing in international and national credit markets as well as proposing or enacting austerity programs that seek to reduce government spending, raise taxes, or both. Many credit providers, including banks, may need to obtain additional capital before they will be able to expand their lending activities. We are unable to evaluate the effects these programs and conditions will have upon our financial condition, income, or ability to make distributions to our stockholders.

Economic conditions may impede our ability to complete the disposition of our remaining Plan assets, which include several legacy CRE assets and other miscellaneous non-CRE investments.

Our Board approved the Plan to dispose of non-core businesses in November 2016. Economic conditions may hinder our ability to complete the disposition of these assets and businesses. We have adjusted the amount of these assets to fair market value less costs to sell at December 31, 2019. However, we may not be able to dispose of the assets that remain at December 31, 2019 at prices that would allow us to recover the book value of our investments and we may incur further losses as a result of difficult economic conditions and/or lack of buying interest.

Risks Related to Our Financing

Our portfolio has been financed in material part through the use of leverage that may reduce the return on our investments and cash available for distribution.

Our portfolio has been financed in material part through the use of leverage and, as credit market conditions permit, we will seek such financing in the future. Using leverage subjects us to risks associated with debt financing, including the risks that:

- the cash provided by our operating activities will not be sufficient to meet required payments of principal and interest,
- the cost of financing may increase relative to the income from the assets financed, reducing the income we have available to pay distributions, and
- our investments may have maturities that differ from the maturities of the related financing and, consequently, the risk that the terms of any refinancing we obtain will not be as favorable as the terms of existing financing.

If we are unable to secure refinancing of our currently outstanding financing, when due, on acceptable terms, we may be forced to dispose of some of our assets at disadvantageous terms or to obtain financing at unfavorable terms, either of which may result in losses to us or reduce the cash flow available to meet our debt service obligations or to pay distributions.

Financing that we may obtain and financing we have obtained through CRE debt securitizations typically require, or will require, us to maintain a specified ratio of the amount of the financing to the value of the assets financed. A decrease in the value of these assets may lead to margin calls or calls for the pledge of additional assets, which we will have to satisfy. We may not have sufficient funds or unpledged assets to satisfy any such calls, which could result in our loss of distributions from and interests in affected CRE debt securitizations, which would reduce our assets, income and ability to make distributions.

Our repurchase agreements, warehouse facilities and other short-term financings have credit risks that could result in losses.

If we accumulate assets for a CRE debt securitization on a short-term credit facility and do not complete the CRE debt securitization financing, or if a default occurs under the facility, the short-term lender will sell the assets and we would be responsible for the amount by which the original purchase price of the assets exceeds their sale price, up to the amount of our investment or guaranty.

We may lose money on our repurchase transactions if the counterparty to the transaction defaults on its obligation to resell the underlying security back to us at the end of the transaction term, or if the value of the underlying security has declined as of the end of the term or if we default on our obligations under the repurchase agreements.

We are exposed to loss if lenders under our repurchase agreements, warehouse facilities, or other short-term loans liquidate the assets securing those facilities. Moreover, assets acquired by us pursuant to our repurchase agreements, warehouse facilities or other short-term debt may not be suitable for refinancing through long-term arrangements that may require us to liquidate some or all of the related assets.

We have entered into repurchase agreements and warehouse facilities and expect in the future to seek additional debt to finance our growth. Lenders typically have the right to liquidate assets securing or acquired under these facilities upon the occurrence of specified events, such as an event of default. We are exposed to loss if the proceeds received by the lender upon liquidation are insufficient to satisfy our obligation to the lender. We are also subject to the risk that the assets subject to such repurchase agreements, warehouse facilities or other debt might not be suitable for long-term refinancing or securitization transactions. If we are unable to refinance these assets on a long-term basis, or if long-term financing is more expensive than we anticipated at the time of our acquisition of the assets to be financed, we might be required to liquidate assets.

We will incur losses on our repurchase transactions if the counterparty to the transactions defaults on its obligation to resell the underlying assets back to us at the end of the transaction term, or if the value of the underlying assets has declined as of the end of the term or if we default in our obligations to purchase the assets.

When engaged in repurchase transactions, we generally sell assets to the transaction counterparty and receive cash from the counterparty. The counterparty must resell the assets back to us at the end of the term of the transaction. Because the cash we receive from the counterparty when we initially sell the assets is less than the market value of those assets, if the counterparty defaults on its obligation to resell the assets back to us we will incur a loss on the transaction. We will also incur a loss if the value of the underlying assets has declined as of the end of the transaction term, as we will have to repurchase the assets for their initial value but would receive assets worth less than that amount. If we default upon our obligation to repurchase the assets, the counterparty may liquidate them at a loss, which we are obligated to repay. Any losses we incur on our repurchase transactions would reduce our equity and our earnings, and thus our cash available for distribution to our stockholders.

Financing our REIT qualifying assets with repurchase agreements and warehouse facilities could adversely affect our ability to qualify as a REIT.

We have entered into and intend to enter into, sale and repurchase agreements under which we nominally sell certain REIT qualifying assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that we will be treated for U.S. federal income tax purposes as the owner of the assets that are the subject of any such agreement, notwithstanding that we may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the Internal Revenue Service, or IRS, could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case our ability to qualify as a REIT would be adversely affected. If any of our REIT qualifying assets are subject to a repurchase agreement and are sold by the counterparty in connection with a margin call, the loss of those assets could impair our ability to qualify as a REIT. Accordingly, unlike other REITs, we may be subject to additional risk regarding our ability to qualify and maintain our qualification as a REIT.

Historically, we have financed most of our investments through CRE debt securitizations and have retained the equity. CRE debt securitization equity receives distributions from the CRE debt securitization only if the CRE debt securitization generates enough income to first pay the holders of its debt securities and its expenses.

Historically, we have financed most of our investments through CRE debt securitizations in which we retained the equity interest. Depending on market conditions and credit availability, we intend to use CRE debt securitizations to finance our investments in the future. The equity interests of a CRE debt securitization are subordinate in right of payment to all other securities issued by the CRE debt securitization. The equity is usually entitled to all of the income generated by the CRE debt securitization after the CRE debt securitization pays all of the interest due on the debt securities and its other expenses. However, there will be little or no income available to the CDO equity if there are excessive defaults by the issuers of the underlying collateral, which would significantly reduce the value of that interest. Reductions in the value of the equity interests we have in a CRE debt securitization, if we determine that they are other-than-temporary, will reduce our earnings. In addition, the liquidity of the equity securities of CDOs is constrained and, because they represent a leveraged investment in the CRE debt securitization's assets, the value of the equity securities will generally have greater fluctuations than the value of the underlying collateral.

If our CRE debt securitization financings fail to meet their performance tests, including over-collateralization requirements, our net income and cash flow from these CRE debt securitizations will be eliminated.

Our CRE debt securitizations generally provide that the principal amount of their assets must exceed the principal balance of the related securities issued by them by a certain amount, commonly referred to as "over-collateralization." If delinquencies and/or losses exceed specified levels, based on the analysis by the rating agencies (or any financial guaranty insurer) of the characteristics of the assets collateralizing the securities issued by the CRE debt securitization issuer, the required level of over-collateralization may be increased or may be prevented from decreasing as would otherwise be permitted if losses or delinquencies did not exceed those levels. A failure by a CRE debt securitization to satisfy an over-collateralization test typically results in accelerated distributions to the holders of the senior debt securities issued by the CRE debt securitization entity, resulting in a reduction or elimination of distributions to more junior securities until the over-collateralization requirements have been met or the senior debt securities have been paid in full.

Our equity holdings and, when we acquire debt interests in CRE debt securitizations, our debt interests, if any, generally are subordinate in right of payment to the other classes of debt securities issued by the CRE debt securitization entity. Accordingly, if over-collateralization tests are not met, distributions on the subordinated debt and equity we hold in these CDOs will cease, resulting in a substantial reduction in our cash flow. Other tests (based on delinquency levels, interest coverage or other criteria) may restrict our ability to receive cash distributions from assets collateralizing the securities issued by the CRE debt securitization entity. Although at December 31, 2019, all of our CRE debt securitizations met their performance tests, we cannot assure you that our CRE debt securitizations will satisfy the performance tests in the future. For information concerning compliance by our CRE debt securitizations with their over-collateralization tests, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources."

If any of our CRE debt securitizations fail to meet collateralization or other tests relevant to the most senior debt issued and outstanding by the CRE debt securitization issuer, an event of default may occur under that CRE debt securitization. If that occurs, our Manager's ability to manage the CRE debt securitization likely would be terminated and our ability to attempt to cure any defaults in the CRE debt securitization would be limited, which would increase the likelihood of a reduction or elimination of cash flow and returns to us in those CDOs for an indefinite time.

If we issue debt securities, the terms may restrict our ability to make cash distributions, require us to obtain approval to sell our assets or otherwise restrict our operations in ways that could make it difficult to execute our investment strategy and achieve our investment objectives.

Any debt securities we may issue in the future will likely be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Holders of senior securities may be granted the right to hold a perfected security interest in certain of our assets, to accelerate payments due under the indenture if we breach financial or other covenants, to restrict distributions, and to require us to obtain their approval to sell assets. These covenants could limit our ability to operate our business or manage our assets effectively. Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock. We, and indirectly our stockholders, will bear the cost of issuing and servicing such securities.

Depending upon market conditions, we intend to seek financing through CRE debt securitizations, which would expose us to risks relating to the accumulation of assets for use in the CRE debt securitizations.

Historically, we have financed a significant portion of our assets through the use of CRE debt securitizations, and have accumulated assets for these financings through short-term credit facilities, typically repurchase agreements or warehouse facilities. Depending upon market condition, and, consequently, the extent to which such financing is available to us, we expect to seek similar financing arrangements in the future. In addition to risks discussed above, these arrangements could expose us to other credit risks, including the following:

- An event of default under one short-term facility may constitute a default under other credit facilities we may have, potentially resulting in asset sales and losses to us, as well as increasing our financing costs or reducing the amount of investable funds available to us.
- We may be unable to acquire a sufficient amount of eligible assets to maximize the efficiency of a CRE debt securitization issuance, which would require us to seek other forms of term financing or liquidate the assets. We may not be able to obtain term financing on acceptable terms, or at all, and liquidation of the assets may be at prices less than those we paid, resulting in losses to us.
- Using short-term financing to accumulate assets for a CRE debt securitization issuance may require us to obtain new financing as the short-term financing matures. Residual financing may not be available on acceptable terms, or at all. Moreover, an increase in short-term interest rates at the time that we seek to enter into new borrowings may reduce the spread between the income on our assets and the cost of our borrowings. This would reduce returns on our assets, which would reduce earnings and, in turn, cash available for distribution to our stockholders.

Risks Related to Our Hedges

Our hedging transactions may not completely insulate us from interest rate risk or pricing risk and may result in poorer overall investment performance than if we had not engaged in any hedging transactions.

Subject to maintaining our qualification as a REIT, we pursue various hedging strategies to seek to reduce our exposure to losses from adverse changes in interest rates. Our interest rate hedging activity varies in scope depending upon market conditions relating to, among other factors, the level and volatility of interest rates and the type of assets we hold. There are practical limitations on our ability to insulate our portfolio from all of the negative consequences associated with changes in short-term interest rates, including:

- Available hedges may not correspond directly with the interest rate risk or pricing risk against which we seek protection.
- The duration of the hedge may not match the duration of the related asset or liability.
- Hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging costs may include structuring and legal fees and fees payable to hedge counterparties to execute the hedge transaction.
- Losses on a hedge position may reduce the cash available to make distributions to stockholders, and may exceed the amounts invested in the hedge position.
- The amount of income that a REIT may earn from hedging transactions, other than through a TRS, is limited by federal tax provisions governing REITs.
- The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction.
- The party owing money in the hedging transaction may default on its obligation to pay.

We have adopted written policies and procedures governing our hedging activities. Under these policies and procedures, our Board is responsible for approving the types of hedging instruments we may use, absolute limits on the notional amount and term of a hedging instrument and parameters for the credit-worthiness of hedge counterparties. The senior managers responsible for each of our targeted asset classes are responsible for executing transactions using the services of independent interest rate risk management consultants, documenting the transactions, monitoring the valuation and effectiveness of the hedges, and providing reports concerning our hedging activities and the valuation and effectiveness of our hedges to the audit committee of our Board no less often than quarterly. Our guidelines also require us to engage one or more experienced third-party advisors to provide us with assistance in the identification of interest rate and pricing risks, the analysis, selection and timing of risk protection strategies, the administration and negotiation of hedge documentation, settlement or disposition of hedges, compliance with hedge accounting requirements and measurement of hedge effectiveness and valuation.

Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of the positions or prevent losses if the values of the positions decline. Hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, we may not be able to hedge against an interest rate fluctuation that is generally anticipated by the market.

The success of our hedging transactions will depend on our Manager's ability to correctly predict movements of interest rates. Therefore, unanticipated changes in interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss.

Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities and involve risks of default by the hedging counterparty and illiquidity.

Subject to maintaining our qualification as a REIT, part of our investment strategy involves entering into puts and calls on securities or indices of securities, interest rate swaps, caps and collars, including options and forward contracts and interest rate lock agreements, principally Treasury lock agreements, to seek to hedge against mismatches between the cash flows from our assets and the interest payments on our liabilities. Currently, many hedging instruments are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there may be no applicable requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a counterparty with whom we enter into a hedging transaction will most likely result in a default. Default by a party with whom we entered into a hedging transaction may result in the loss of unrealized profits and force us to cover our resale commitments, if any, at the then current market price. Although generally we seek to reserve the right to terminate our hedging positions, we may not always be able to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract in order to cover our risk. A liquid secondary market may not exist for hedging instruments purchased or sold, and we may have to maintain a position until exercise or expiration, which could result in losses.

Hedging instruments that we enter into could expose us to unexpected losses in the future.

We have entered into and may in the future enter into hedging instruments that require us to fund cash payments under certain circumstances, for example, upon the early termination of the instrument caused by an event of default or other early termination event, or the decision by a counterparty to request additional collateral for margin it is contractually owed under the terms of the instrument. The amount due would be equal to the unrealized loss of the open positions with the counterparty and could also include other fees and charges. These transactions will be reflected on our consolidated balance sheets, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition.

Our interest rate hedging arrangements are cleared through a central counterparty and, as a consequence, our hedging strategy may fail if the utilized Derivatives Clearing Organization or Futures Commission Merchant defaults in its obligations.

The Commodity Futures Trading Commission has issued and continues to issue new rules regarding swaps, under the authority granted to it pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Most interest rate hedging arrangements that we enter into must be cleared by a Derivatives Clearing Organization, or DCO. We access the DCO through Futures Commission Merchants, or FCMs. For any centrally cleared interest rate swap, were the DCO or FCM to default in its obligations under these hedging arrangements, we would lose the hedge protection for which we had contracted and, depending upon market conditions, could result in significant losses to us. We cannot assure you that we could replace the defaulted hedges or that the terms of any replacement hedges we could obtain would be on similar terms, or as to the cost to us of obtaining replacement hedges.

Risks Related to Our Operations

We may change our investment strategy without stockholder consent, which may result in riskier investments than those currently targeted.

Subject to maintaining our qualification as a REIT and our exclusion from regulation under the Investment Company Act, we may change our investment strategy, including the percentage of assets that may be invested in each asset class, or in the case of securities, in a single issuer, at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this report. A change in our investment strategy may increase our exposure to interest rate, credit market and real estate market fluctuations, all of which may reduce the market price of our common stock and reduce our ability to make distributions to stockholders. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this report.

We believe core earnings is an appropriate measure of our operating performance; however, in certain instances core earnings may not be reflective of actual economic results.

We utilize core earnings as a measure of our operating performance and believe that it is useful to analysts, investors and other parties in the evaluations of REITs. We believe core earnings is a useful measure of our operating performance because it excludes the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current CRE loan origination portfolio and other CRE-related investments and operations. Core Earnings exclude (i) non-cash equity compensation expense, (ii) unrealized gains or losses, (iii) non-cash provision for loan losses, (iv) non-cash impairments on securities, (v) non-cash amortization of discounts or premiums associated with borrowings, (vi) net income or loss from limited partnership interests owned at the initial measurement date, (vii) net income or loss from non-core assets, (viii) real estate depreciation and amortization, (ix) foreign currency gains or losses and (x) income or losses from discontinued operations. Core Earnings may also be adjusted periodically to exclude certain one-time events pursuant to changes in GAAP and certain non-cash items. Although pursuant to the Management Agreement we calculate incentive compensation using Core Earnings excluding incentive compensation payable to our Manager, we include incentive compensation payable to our Manager in Core Earnings for reporting purposes. Core Earnings allocable to common shares, adjusted, or Core Earnings Adjusted, is a non-GAAP financial measure used to evaluate our operating performance. Core Earnings Adjusted exclude certain non-recurring items and the results of certain transactions that are not indicative of our ongoing operating performance. Core Earnings and Core Earnings Adjusted do not represent net income or cash generated from operating activities and should not be considered as an alternative to GAAP net income or as a measure of liquidity under GAAP. Our methodology for calculating Core Earnings and Core Earnings Adjusted may differ from methodologies used by other companies to calculate similar supplemental performance measures, and accordingly, our reported Core Earnings and Core Earnings Adjusted may not be comparable to similar performance measures used by other companies.

We believe economic book value is an appropriate measure of our economic position; however, it should not be considered a replacement to stockholders' equity or common stock book value.

We utilize economic book value as a measure of our economic position and believe that it is useful to analysts, investors and other parties in the evaluations of REITs. We believe economic book value is a useful and appropriate supplement to GAAP stockholders' equity and common stock book value because it adjusts common stock book value for the face redemption amounts of the outstanding preferred stock and convertible senior notes. Economic book value does not represent GAAP stockholders' equity or common stock book value and should not be considered as an alternative to those measures.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

If we fail to maintain an effective system of internal control, fail to correct any flaws in the design or operating effectiveness of internal controls over financial reporting and disclosure, or fail to prevent fraud, our stockholders could lose confidence in our financial and other reporting, which could harm our business and the trading price of our common stock.

Many of our investments may be illiquid, which may result in our realizing less than their recorded value should we need to sell such investments quickly.

If we determine to sell one or more of our investments, we may encounter difficulties in finding buyers in a timely manner as real estate debt and other of our investments generally cannot be disposed of quickly, especially when market conditions are poor. Moreover, some of these assets may be subject to legal and other restrictions on resale. If we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we, our Manager or C-III has or could be attributed with material non-public information regarding such business entity. These factors may limit our ability to vary our portfolio promptly in response to changes in economic or other conditions and may also limit our ability to use portfolio sales as a source of liquidity, which could limit our ability to make distributions to our stockholders or repay debt.

We may have to repurchase assets that we have sold in connection with CRE debt securitizations and other securitizations.

If any of the assets that we originate or acquire and sell or securitize do not comply with representations and warranties that we make about them, we may have to repurchase these assets from the CRE debt securitization or securitization vehicle, or replace them. In addition, we may have to indemnify purchasers for losses or expenses incurred as a result of a breach of a representation or warranty. Any significant repurchases or indemnification payments could materially reduce our liquidity, earnings and ability to make distributions.

If our allowance for loan losses is not adequate to cover actual future loan and lease losses, our earnings may decline.

We maintain an allowance for loan losses to provide for loan defaults and non-performance by borrowers of their obligations. Our allowance for loan losses may not be adequate to cover actual future loan losses and future provisions for loan losses could materially reduce our income. We base our allowance for loan losses on prior experience, as well as an evaluation of risks in the current portfolio. However, losses have in the past, and may in the future, exceed our current estimates, and the difference could be substantial. The amount of future losses is susceptible to changes in economic, operating and other conditions that may be beyond our control, including changes in interest rates, changes in borrowers' creditworthiness and the value of collateral securing loans. Additionally, if we seek to expand our loan portfolios, we may need to make additional provisions for loan losses to ensure that the allowance remains at levels deemed appropriate by our management for the size and quality of our portfolios. While we believe that our allowance for loan and lease losses at December 31, 2019 is adequate to cover our anticipated losses, we cannot assure you that it will not increase in the future. Any increase in our allowance for loan losses will reduce our income and, if sufficiently large, could cause us to incur loss.

A new accounting standard will likely require us to increase our allowance for loan losses and may have a material adverse effect on our business, financial condition and results of operations.

In June 2016, the Financial Accounting Standards Board issued updated guidance that significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance will replace the incurred loss model under existing guidance with a current expected credit loss ("CECL") model for instruments measured at amortized cost, and requires entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as done under the other-than-temporary impairment model. The guidance is effective for fiscal years beginning after December 15, 2019.

The CECL reserve required is a valuation account that is deducted from the related loans' and debt securities' amortized cost basis on our consolidated balance sheets, and which will reduce our total stockholders' equity. The initial CECL reserve recorded on January 1, 2020 will be reflected as a direct charge to retained earnings; however future changes to the CECL reserve will be recognized through net income on our consolidated statements of operations. While the guidance does not require any particular method for determining the CECL allowance, it does specify the allowance should be based on relevant information about past events, including historical loss experience, current portfolio and market conditions, and reasonable and supportable forecasts for the duration of each respective loan. Because our methodology for determining CECL allowances may differ from the methodologies employed by other companies, our CECL allowances may not be comparable with the CECL allowances reported by other companies. In addition, other than pursuant to a few narrow exceptions, the guidance requires that all financial instruments subject to the CECL model have some amount of reserve to reflect the GAAP principal underlying the CECL model that all loans, debt securities, and similar assets have some inherent risk of loss, regardless of credit quality, subordinate capital, or other mitigating factors. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses and could require us to increase our allowance and recognize provisions for loan losses earlier in the lending cycle. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

Our due diligence may not reveal all of an investment's weaknesses.

Before investing in any asset, we will assess the strength and skills of the asset's management and operations, the value of the asset and, for debt investments, the value of any collateral securing the debt, the ability of the asset or underlying collateral to service the debt and other factors that we believe are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, we will rely on the resources available to us and, in some cases, an investigation by third parties. This process is particularly important and subjective with respect to investments in newly-organized entities because there may be little or no information publicly available about the entities or, with respect to debt securities, any underlying collateral. Our due diligence processes, however, may not uncover all facts that may be relevant to an investment decision.

The ability to sell our fixed-rate CRE loans held for sale to CMBS securitizations is an important source of our liquidity to fund this business. If we are unable to sell our fixed-rate CRE loans held for sale to CMBS securitizations in accordance with our operating strategy, we may be unable to sell the loans on economically viable terms, if at all, which would adversely affect our liquidity and our ability to fund operations.

If a substantial portion of our originated or acquired fixed-rate CRE loans held for sale are unable to be sold to CMBS securitizations, we may not be able to find alternative markets in which to sell the loans on commercially favorable terms, which would adversely impact our operations in this business line and prevent us from originating new fixed-rate CRE loans. If we are unable to sell to CMBS securitizations, we may be required to sell assets at below market prices or hold the loans on our balance sheet as loans held for investment, either of which could have a material adverse effect on our overall financial position, profitability and liquidity.

Risks Related to Our Investments

Declines in the market values of our investments may reduce periodic reported results, credit availability and our ability to make distributions.

We classify a substantial portion of our assets for accounting purposes as “available-for-sale.” As a result, reductions in the market values of those assets are directly charged to accumulated other comprehensive income (loss) and reduce our stockholders’ equity. A decline in these values will reduce the book value of our assets. Moreover, if the decline in value of an available-for-sale asset is other-than-temporary, we are required by GAAP to record the decline as an asset impairment, which will reduce our earnings.

A decline in the market value of our assets may also adversely affect us in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan. If we are unable to post the additional collateral, we would have to repay some portion or all of the loan, which may require us to sell assets, which could potentially be under adverse market conditions. As a result, our earnings would be reduced or we could sustain losses, and cash available to make distributions could be reduced or eliminated.

Increases in interest rates and other factors could reduce the value of our investments, result in reduced earnings or losses and reduce our ability to pay distributions.

A significant risk associated with our investment in CRE-related loans, CMBS and other debt investments is the risk that either or both of long-term and short-term interest rates increase significantly. If long-term rates increase, the market value of our assets would decline. Even if assets underlying investments we may own in the future are guaranteed by one or more persons, including government or government-sponsored agencies, those guarantees do not protect against declines in market value of the related assets caused by interest rate changes. At the same time, with respect to assets that are not match-funded or that have been acquired with variable rate or short-term financing, an increase in short-term interest rates would increase our interest expense, reducing our net interest spread or possibly result in negative cash flow from those assets. This could result in reduced profitability and distributions or losses.

Changes in the method for determining the LIBOR or a replacement of LIBOR may adversely affect the value of our loans, investments and borrowings and could affect our results of operations.

We utilize LIBOR as a benchmark interest rate for the pricing of our CRE loans and are exposed to LIBOR through our issuance of notes on our securitizations and the use of term facilities and repurchase agreements, certain of which are hedged with interest rate swap contracts. In July 2017, the U.K. Financial Conduct Authority announced that it would phase out LIBOR as a benchmark by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprising large U.S. financial institutions, has identified the Secured Overnight Financing Rate, or SOFR, a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities, as its preferred alternative rate for LIBOR. When LIBOR ceases to exist, we may need to amend our loan and borrowing agreements and our derivative contracts that utilize LIBOR as a factor in determining the interest rate or hedge against fluctuations in LIBOR based on a new standard that is established, if any. Any resulting differences in interest rate standards among our assets and our borrowings may result in interest rate mismatches between our assets and the borrowings used to fund such assets. There is no guarantee that a transition from LIBOR to SOFR or to another alternative rate will not result in financial market disruptions and significant increases in benchmark rates, resulting in increased financing costs to us, any of which could have an adverse effect on our business, results of operations, financial condition, and the market price of our common stock.

Investing in mezzanine debt, preferred equity, mezzanine or other subordinated tranches of CMBS involves greater risks of loss than senior secured debt investments.

Subject to maintaining our qualification as a REIT and exclusion from regulation under the Investment Company Act, we may invest in mezzanine debt, preferred equity and mezzanine or other subordinated tranches of CMBS. We currently have investments in mezzanine debt and preferred equity. These types of investments carry a higher degree of risk of loss than senior secured debt investments such as our whole loan investments because, in the event of default and foreclosure, holders of senior liens will be paid in full before mezzanine investors. Depending on the value of the underlying collateral at the time of foreclosure, there may not be sufficient assets to pay all or any part of amounts owed to mezzanine investors. Moreover, mezzanine and other subordinate debt investments may have higher LTV than conventional senior lien financing, resulting in less equity in the collateral and increasing the risk of loss of principal. If a borrower defaults or declares bankruptcy, we may be subject to agreements restricting or eliminating our rights as a creditor, including rights to call a default, cure a default, foreclose on collateral, and accelerate maturity or control decisions made in bankruptcy proceedings. In addition, the prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to economic downturns or individual issuer developments because the ability of obligors of investments underlying the securities to make principal and interest payments may be impaired. In such event, existing credit support relating to the securities' structure may not be sufficient to protect us against loss of our principal. For additional risks regarding real estate-related loans, see "Risks Related to Real Estate Investments."

We record some of our portfolio investments, including those classified as assets held for sale, at fair value as estimated by our management and, as a result, there will be uncertainty as to the value of these investments.

We currently hold, and expect that we will hold in the future, portfolio investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We value these investments quarterly at fair value as determined under policies approved by our Board. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that we would have obtained if a ready market for them existed. The value of our common stock will likely decrease if our determinations regarding the fair value of these investments are materially higher than the values that we ultimately realize upon their disposal.

We may face competition for suitable investments.

There are numerous REITs and other financial investors seeking to invest in the types of assets we target. This competition may cause us to forgo particular investments or to accept economic terms or structural features that we would not otherwise have accepted, and it may cause us to seek investments outside of our currently targeted areas. Competition for investment assets may slow our growth or limit our profitability and ability to make distributions to our stockholders.

We may not have control over certain of our loans and investments.

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may:

- acquire investments subject to rights of senior classes and servicers under inter-creditor or servicing agreements;
- acquire only a minority and/or non-controlling participation in an underlying investment;
- co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or
- rely on independent third-party management or strategic partners with respect to the management of an asset.

Therefore, we may not be able to exercise control over the loan or investment. Such financial assets may involve risks not present in investments where senior creditors, servicers or third-party controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior creditors or servicers whose interests may not be aligned with ours. A third party partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interest or goals which are inconsistent with ours, or may be in a position to take action contrary to our investment objectives. In addition, in certain circumstances we may be liable for the actions of our third-party partners or co-venturers.

Risks Related to Real Estate Investments

Our investments in real estate and commercial mortgage loans, mezzanine loans and CRE equity investments are subject to the risks inherent in owning the real estate securing or underlying those investments that could result in losses to us.

Commercial mortgage loans are secured by, and mezzanine loans and CRE equity investments depend on, the performance of the underlying property and are subject to risks of delinquency and foreclosure, and risks of loss, that are greater than similar risks associated with loans made on the security of single-family residential properties. The ability of a borrower to repay a loan or make distributions secured by or dependent upon an income-producing property typically depends primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan or ability to make distributions may be impaired. Net operating income of an income producing property can be affected by, among other things:

- tenant mix, success of tenant businesses, tenant bankruptcies and property management decisions;
- property location and condition;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- any need to address environmental contamination at the property;
- the occurrence of any uninsured casualty at the property;
- changes in national, regional or local economic conditions and/or the conditions of specific industry segments in which the lessees may operate;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates and other operating expenses;
- the availability of debt or equity financing;
- increases in costs of construction material;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation and zoning laws; and
- acts of God, terrorism, pandemic, social unrest and civil disturbances.

We risk loss of principal on defaulted mortgage loans we hold to the extent of any deficiency between the value we can realize from the sale of the collateral securing the loan upon foreclosure and the loan's principal and accrued interest. Moreover, foreclosure of a mortgage loan can be an expensive and lengthy process that could reduce the net amount we can realize on the foreclosed mortgage loan. In a bankruptcy of a mortgage loan borrower, the mortgage loan will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy as determined by the bankruptcy court, and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

For a discussion of additional risks associated with mezzanine loans, see - "Risks Related to Our Investments - Investing in mezzanine debt, preferred equity and mezzanine or other subordinated tranches of CMBS involves greater risks of loss than senior secured debt investments."

Our investment portfolio may have material geographic, sector, property-type and sponsor concentrations.

We may have material geographic concentrations related to our direct or indirect investments in real estate loans and properties. We also may have material concentrations in the property types and industry sectors that are in our loan portfolio. Where we have any kind of concentration risk in our investments, we may be affected by sector-specific economic or other problems that are not reflected in the national economy generally or in more diverse portfolios. An adverse development in that area of concentration could reduce the value of our investment and our return on that investment and, if the concentration affects a material amount of our investments, impair our ability to execute our investment strategies successfully, reduce our earnings and reduce our ability to make distributions.

The B-notes in which we may invest may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to us.

We may invest in B-notes. A B-note is a loan typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-note owners after payment to the senior note owners. Since each transaction is privately negotiated, B-notes can vary in their structural characteristics and risks. For example, the rights of holders of B-notes to control the process following a borrower default may be limited in certain investments. Depending upon market and economic conditions, we may make B-note investments at any time. B-notes are less liquid than other forms of CRE debt investments, such as CMBS, and, as a result, we may be able to dispose of underperforming or non-performing B-note investments only at a significant discount to book value.

We may be exposed to environmental liabilities with respect to properties to which we take title.

In the course of our business, we have taken title to, and expect we will in the future take title to, real estate through foreclosure on collateral underlying real estate debt investments. When we do take title to any property, we could be subject to environmental liabilities with respect to it. In such a circumstance, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs they incur as a result of environmental contamination, or may have to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial and could reduce our income and ability to make distributions.

Our investments in preferred equity involve a greater risk of loss than traditional debt financing.

We may make preferred equity investments in entities that own or acquire CRE properties. Preferred equity investments involve a higher degree of risk than first mortgage loans due to a variety of factors, including the risk that, similar to mezzanine loans, such investments are subordinate to first mortgage loans and are not collateralized by property underlying the investment. Unlike mezzanine loans, preferred equity investments generally do not have a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. Although as a holder of preferred equity we may enhance our position with covenants that limit the activities of the entity in which we hold an interest and protect our equity by obtaining an exclusive right to control the underlying property after an event of default, should such a default occur on our investment, we would only be able to proceed against the entity in which we hold an interest, and not the property owned by such entity and underlying our investment. As a result, we may not recover some or all of our investment.

Risks Related to Our Manager

We depend on our Manager, C-III and Resource America to develop and operate our business and may not find suitable replacements if the Management Agreement terminates.

We have no direct employees. Our officers, portfolio managers, administrative personnel and support personnel are employees of C-III or Resource America. We have no separate facilities and completely rely on our Manager; and because our Manager has no direct employees, Resource America and C-III have significant discretion as to the implementation of our operating policies and investment strategies. If our Management Agreement terminates, we may be unable to find a suitable replacement for our Manager. Moreover, we believe that our success depends to a significant extent upon the experience of the portfolio managers and officers of our Manager, C-III and Resource America who provide services to us, whose continued service is not guaranteed. The departure of any such persons could harm our investment performance.

Our Manager's fee structure may not create proper incentives, and the incentive compensation we pay our Manager may increase the investment risk of our portfolio.

Our Manager is entitled to receive a base management fee equal to 1/12th of our equity, as defined in the Management Agreement, multiplied by 1.50%. Since the base management fee is based on our outstanding equity after December 31, 2018, our Manager could be incentivized to recommend strategies that increase our equity, and there may be circumstances where increasing our equity will not optimize the returns for our stockholders.

In addition to its base management fee, our Manager is entitled to receive incentive compensation, payable quarterly, equal to 20% of the amount by which our Core Earnings, as defined in the Management Agreement, exceed the weighted average of our book value per share at September 30, 2017 (subject to adjustments) and the prices for our common stock in all of our offerings subsequent to September 30, 2017, multiplied by the greater of 1.75% or 0.4375% plus one-fourth of the average ten-year U.S. Treasury rate for such quarter, multiplied by the weighted average number of common shares outstanding during the quarter. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on Core Earnings may lead our Manager to place undue emphasis on the maximization of Core Earnings at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yields generally have higher risk of loss than investments with lower yields. If our interests and those of our Manager are not aligned, the execution of our business plan and our results of operations could be adversely affected, which could adversely affect our results of operations and financial condition.

Our Manager manages our portfolio pursuant to very broad investment guidelines and our Board does not approve each investment decision, which may result in our making riskier investments.

Our Manager is authorized to follow very broad investment guidelines. While our directors periodically review our investment guidelines and our investment portfolio, they do not review all of our proposed investments. In addition, in conducting periodic reviews, the directors may rely primarily on information provided to them by our Manager. Furthermore, our Manager may use complex strategies, and transactions entered into by our Manager, which may be difficult or impossible to unwind by the time they are reviewed by the directors. Our Manager has great latitude within the broad investment guidelines in determining the types of investments it makes for us. Poor investment decisions could impair our ability to make distributions to our stockholders.

Termination of the Management Agreement by us without cause is difficult and could be costly.

Termination of our Management Agreement without cause is difficult and could be costly. We may terminate the Management Agreement without cause only annually upon the affirmative vote of at least two-thirds of our independent directors or by a vote of the holders of at least a majority of our outstanding common stock, based upon unsatisfactory performance by our Manager that is materially detrimental to us or a determination that the management fee payable to our Manager is not fair. Moreover, with respect to a determination that the management fee is not fair, our Manager may prevent termination by accepting a mutually acceptable reduction of management fees. We must give not less than 180 days' prior notice of any termination. Upon any termination without cause, our Manager will be paid a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by it during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

Our Manager and C-III will face conflicts of interest relating to the allocation of investment opportunities and such conflicts may not be resolved in our favor, which could limit our ability to acquire assets and, in turn, limit our ability to make distributions and reduce your overall investment return.

Our Management Agreement does not prohibit our Manager, or C-III or Resource America from investing in or managing entities that invest in asset classes that are the same as, or similar to, our targeted asset classes, except that they may not raise funds for, sponsor or advise any new publicly-traded REIT that invests primarily in mortgage-backed securities, or MBS, in the United States. We rely on our Manager to identify suitable investment opportunities for us. Our executive officers and several of the other key real estate professionals, acting on behalf of our Manager, are also the key real estate professionals acting on behalf of the advisors of other investment programs sponsored by, and other clients managed by, Resource America or C-III. As such, these investment programs and clients rely on many of the same real estate professionals as will future programs and vehicles sponsored by Resource America and C-III. Many investment opportunities that are suitable for us may also be suitable for one or more of these investment programs or clients. When an investment opportunity becomes available, the applicable allocation committee established by C-III, in accordance with its investment allocation policies and procedures, will offer the opportunity to the investment program or client for which the investment opportunity is most suitable based on the investment objectives, portfolio and criteria of each. Thus, the allocation committees could direct attractive investment opportunities to an investment program or client other than us, which could result in us not investing in investment opportunities that could provide an attractive return or investing in investment opportunities that provide less attractive returns. Any of the foregoing may reduce our ability to make distributions to you.

Our officers and many of the investment professionals that provide services to us through our Manager are also officers or employees of Resource America or C-III and may face conflicts regarding the allocation of their time.

Our officers, other than our Chief Financial Officer, Chief Accounting Officer and several accounting and tax professionals on their staff, as well as the officers, directors and employees of C-III and Resource America who provide services to us, are not required to work full time on our affairs, and devote significant time to the affairs of Resource America or C-III. As a result, there may be significant conflicts between us, on the one hand, and our Manager, C-III and Resource America on the other, regarding allocation of our Manager's and Resource America's or C-III's resources to the management of our investment portfolio.

We may invest in B-Pieces issued by CMBS trusts to which C-III may contribute loans, and as a result our Manager and C-III may have a conflict in determining whether any such loan should be excluded from the securitization.

We may seek opportunities to invest in the unrated or certain non-investment grade tranches of securities, or, collectively, a B-Piece, issued by CMBS trusts. Because a B-Piece represents the "first loss position," or riskiest portion of the trust, the buyers of the senior CMBS tranches typically depend on the B-Piece buyer to conduct due diligence on the underlying loans expected to be contributed to the CMBS trust in the securitization. In such cases, our Manager will rely upon the personnel of C-III to analyze the loans and negotiate with the sponsor to potentially exclude certain loans determined to be too risky. If C-III Commercial Mortgage a wholly-owned subsidiary of C-III, seeks to contribute one or more loans to the same CMBS trust, our Manager and C-III may have a conflict in determining whether loans to be contributed by C-III Commercial Mortgage should be excluded from the securitization transaction.

We have engaged in and may again engage in transactions with entities affiliated with our Manager. Our policies and procedures may be insufficient to address any conflicts of interest that may arise.

We have established policies and procedures regarding review, approval and ratification of transactions that may give rise to a conflict of interest between persons affiliated or associated with our Manager and us. In the ordinary course of our business, we have ongoing relationships and have engaged in and may again engage in transactions with entities affiliated or associated with our Manager. See “Item 13. Certain Relationships and Related Transactions and Director Independence - Relationships and Related Transactions” in this report. Our policies and procedures may not be sufficient to address any conflicts of interest that arise.

Our Manager’s liability is limited under the Management Agreement, and we have agreed to indemnify our Manager against certain liabilities.

Our Manager does not assume any responsibility other than to render the services called for under the Management Agreement, and will not be responsible for any action of our Board in following or declining to follow its advice or recommendations. C-III, Resource America, our Manager, their directors, managers, officers, employees and affiliates will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary’s stockholders for acts performed in accordance with and pursuant to the Management Agreement, except for acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the Management Agreement. We have agreed to indemnify the parties for all damages and claims arising from acts not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the Management Agreement.

Our business is highly dependent on communications and information systems, and systems failures or cybersecurity incidents could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to operate our business.

We depend on the information systems of our Manager, C-III, Resource America and third parties. Any failure or interruption of our systems or cyber-attacks or security breaches of our networks or systems could cause delays or other problems in our securities trading activities, including MBS trading activities. A disruption or breach could also lead to unauthorized access to and release, misuse, loss or destruction of our confidential information or personal or confidential information of our Manager, C-III, Resource America or third parties, which could lead to regulatory fines, litigation, costs of remediating the breach and reputational harm. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities transactions, if their respective systems experience failure, interruption, cyber-attacks, or security breaches. We may face increased costs as we continue to evolve our cyber defenses in order to contend with changing risks. These costs and losses associated with these risks are difficult to predict and quantify, but could have a significant adverse effect on our operating results.

Computer malware, viruses, computer hacking and phishing attacks have become more prevalent in our industry and may occur on our systems. We rely heavily on our financial, accounting and other data processing systems. Although we have not detected a material cybersecurity breach to date, other financial services institutions have reported material breaches of their systems, some of which have been significant. Even with all reasonable security efforts, not every breach can be prevented or even detected. It is possible that we have experienced an undetected breach. There is no assurance that we, or the third parties that facilitate our business activities, have not or will not experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of our networks or systems (or the networks or systems of third parties that facilitate our business activities) or any failure to maintain performance, reliability and security of our technical infrastructure, but such computer malware, viruses and computer hacking and phishing attacks may negatively affect our operations.

Risks Related to Our Organization and Structure

Our charter and bylaws contain provisions that may inhibit potential acquisition bids that you and other stockholders may consider favorable, and the market price of our common stock may be lower as a result.

Our charter and bylaws contain provisions that may have an anti-takeover effect and inhibit a change in our Board. These provisions include the following:

- *There are ownership limits and restrictions on transferability and ownership in our charter.* For purposes of assisting us in maintaining our REIT qualification under the Code, our charter generally prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of any class or series of our outstanding capital stock. This restriction may:
 - discourage a tender offer or other transactions or a change in the composition of our Board or control that might involve a premium price for our shares or otherwise be in the best interests of our stockholders; or
 - result in shares issued or transferred in violation of such restrictions being automatically transferred to a trust for a charitable beneficiary, resulting in the forfeiture of those shares.

- *Our charter permits our Board to issue stock with terms that may discourage a third-party from acquiring us.* Our Board may amend our charter without stockholder approval to increase the total number of authorized shares of stock or the number of shares of any class or series and issue common or preferred stock having preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications, or terms or conditions of redemption as determined by our Board. Thus, our Board could authorize the issuance of stock with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of our shares might receive a premium for their shares over the then-prevailing market price.
- *Our charter and bylaws contain other possible anti-takeover provisions.* Our charter and bylaws contain other provisions, including advance notice procedures for the introduction of business and the nomination of directors, that may have the effect of delaying or preventing a change in control of us or the removal of existing directors and, as a result, could prevent our stockholders from being paid a premium for their common stock over the then-prevailing market price.

Maryland takeover statutes may prevent a change in control of us, and the market price of our common stock may be lower as a result.

Maryland Control Share Acquisition Act. Maryland law provides that “control shares” of a corporation acquired in a “control share acquisition” will have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act, or the Maryland Act. The Maryland Act defines “control shares” as voting shares of stock that, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: one-tenth or more but less than one-third, one-third or more but less than a majority, or a majority or more of all voting power. A “control share acquisition” means the acquisition of control shares, subject to specific exceptions.

If voting rights or control shares acquired in a control share acquisition are not approved at a stockholders’ meeting or if the acquiring person does not deliver an acquiring person statement as required by the Maryland Act then, subject to specific conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders’ meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights.

Our bylaws contain a provision exempting acquisitions of our shares from the Maryland Act. However, our Board may amend our bylaws in the future to repeal this exemption.

Business combinations. Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns ten percent or more of the voting power of the corporation’s shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period before the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which such person otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation’s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder.

Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interests.

Our charter limits the liability of our directors and officers to our stockholders and us for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter authorizes us to, and we do, indemnify our present and former directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each present or former director or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

Our right to take action against our Manager is limited.

The obligation of our Manager under the Management Agreement is to render its services in good faith. It will not be responsible for any action taken by our Board or investment committee in following or declining to follow its advice and recommendations. Furthermore, as discussed above under - “Risks Related to Our Manager,” it will be difficult and costly for us to terminate the Management Agreement without cause. In addition, we will indemnify our Manager, C-III, Resource America and their officers and affiliates for any actions taken by them in good faith.

We have not established a minimum distribution payment level and we cannot assure you of our ability to make distributions in the future. In the future, we may use uninvested offering proceeds or borrowed funds to make distributions.

We expect to make quarterly distributions to our stockholders in amounts such that we distribute all or substantially all of our taxable income in each year, subject to certain adjustments. We have not established a minimum distribution payment level, and our ability to make distributions may be impaired by the risk factors described in this report. All distributions will be made at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our REIT qualification and other factors as our Board may deem relevant from time to time. We may not be able to make distributions in the future. In addition, some of our distributions may include a return of capital. To the extent that we decide to make distributions in excess of our current and accumulated taxable earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes. A return of capital is not taxable, but it has the effect of reducing the holder’s tax basis in its investment. Although we currently do not expect that we will do so, we have in the past and may in the future also use proceeds from any offering of our securities that we have not invested or borrowed funds to make distributions. If we use uninvested offering proceeds to pay distributions in the future, we will have less funds available for investment and, as a result, our earnings and cash available for distribution would be less than we might otherwise have realized had such funds been invested. Similarly, if we borrow to fund distributions, our future interest costs would increase, thereby reducing our future earnings and cash available for distribution from what they otherwise would have been.

Loss of our exclusion from regulation under the Investment Company Act would require significant changes in our operations and could reduce the market price of our common stock and our ability to make distributions.

We rely on an exclusion from registration as an investment company afforded by Section 3(a)(1)(C) of the Investment Company Act. To qualify for this exclusion, we do not engage in the business of investing, reinvesting, owning, holding, or trading securities and we do not own “investment securities” with a value that exceeds 40% of the value of our total assets (exclusive of government securities and cash items) on an unconsolidated basis. We may not be able to maintain such a mix of assets in the future, and attempts to maintain such an asset mix may impair our ability to pursue otherwise attractive investments. In addition, these rules are subject to change and such changes may have an adverse impact on us. We may need to avail ourselves of alternative exclusions and exemptions that may require a change in the organizational structure of our business.

Furthermore, as it relates to our investment in our real estate subsidiary, RCC RE, we rely on an exclusion from registration as an investment company afforded by Section 3(c)(5)(C) of the Investment Company Act. Given the material size of RCC RE relative to our 3(a)(1)(C) exclusion, were RCC RE to be deemed to be an investment company (other than by application of the Section 3(c)(1) exemption for closely held companies and the Section 3(c)(7) exemption for companies owned by “qualified purchasers”), we would not qualify for our 3(a)(1)(C) exclusion. Under the Section 3(c)(5)(C) exclusion, RCC RE is required to maintain, on the basis of positions taken by the SEC staff in interpretive and no-action letters, a minimum of 55% of the value of the total assets of its portfolio in Qualifying Interests and a minimum of 80% in Qualifying Interests and real estate-related assets, with the remainder permitted to be miscellaneous assets. Because registration as an investment company would significantly affect RCC RE’s ability to engage in certain transactions or to organize itself in the manner it is currently organized, we intend to maintain its qualification for this exclusion from registration.

We treat our investments in CMBS, B-notes and mezzanine loans as Qualifying Interests for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the SEC or its staff. In the absence of specific guidance or guidance that otherwise supports the treatment of these investments as Qualifying Interests, we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate-related assets or miscellaneous assets, as appropriate.

If RCC RE’s portfolio does not comply with the requirements of the exclusion we rely upon, it could be forced to alter its portfolio by selling or otherwise disposing of a substantial portion of the assets that are not Qualifying Interests or by acquiring a significant position in assets that are Qualifying Interests. Altering its portfolio in this manner may have an adverse effect on its investments if it is forced to dispose of or acquire assets in an unfavorable market, and may adversely affect our stock price.

If it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC that we would be unable to enforce contracts with third parties, that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company, and that we would be subject to limitations on corporate leverage that would have an adverse impact on our investment returns.

Rapid changes in the values of our real estate-related investments may make it more difficult for us to maintain our qualification as a REIT or exclusion from regulation under the Investment Company Act.

If the market value or income potential of our real estate-related investments declines as a result of economic conditions, increased interest rates, prepayment rates or other factors, we may need to increase our real estate-related investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exclusion from registration under the Investment Company Act. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. We may have to make investment decisions that we otherwise would not make absent REIT qualification and Investment Company Act considerations.

Tax Risks

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, we must continually satisfy various tests regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our common stock. In order to meet these tests, we may be required to forgo investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our investment performance.

In particular, at least 75% of our assets at the end of each calendar quarter must consist of real estate assets, government securities, cash and cash items. For this purpose, “real estate assets” generally include interests in real property, such as land, buildings, leasehold interests in real property, stock of other entities that qualify as REITs, interests in mortgage loans secured by real property, investments in stock or debt investments during the one-year period following the receipt of new capital and regular or residual interests in a real estate mortgage investment conduit, or REMIC. In addition, the amount of securities of a single issuer, other than a TRS, that we hold must generally not exceed either 5% of the value of our gross assets or 10% of the vote or value of such issuer’s outstanding securities.

Certain of the assets that we hold are not qualified and will not be qualified real estate assets for purposes of the REIT asset tests. CMBS securities should generally qualify as real estate assets. However, to the extent that we own non-REMIC collateralized mortgage obligations or other debt investments secured by mortgage loans (rather than by real property) or secured by non-real estate assets, or debt securities that are not secured by mortgages on real property, those securities are likely not qualifying real estate assets for purposes of the REIT asset test, and will not produce qualifying real estate income. Further, whether securities held by warehouse lenders or financed using repurchase agreements are treated as qualifying assets or as generating qualifying real estate income for purposes of the REIT asset and income tests depends on the terms of the warehouse or repurchase financing arrangement.

We generally will be treated as the owner of any assets that collateralize CRE debt securitization transactions to the extent that we retain all of the equity of the securitization vehicle and do not make an election to treat such securitization vehicle as a TRS, as described in further detail below. It may be possible to reduce the impact of the REIT asset and gross income requirements by holding certain assets through our TRSs, subject to certain limitations as described below.

Our qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may depend on the accuracy of legal opinions or advice rendered or given or statements by the issuers of securities in which we invest, and the inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate level tax.

When purchasing securities, we have relied and may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, and also to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income that qualifies under the 75% REIT gross income test. In addition, when purchasing CDO equity, we have relied and may rely on opinions or advice of counsel regarding the qualification of interests in the debt of such CDOs for U.S. federal income tax purposes. The inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

We may realize excess inclusion income that would increase our tax liability and that of our stockholders.

If we realize excess inclusion income and allocate it to stockholders, this income cannot be offset by net operating losses of the stockholders. If the stockholder is a tax-exempt entity, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Code. If the stockholder is a foreign person, it would be subject to federal income tax withholding on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.

Excess inclusion income could result if we hold a residual interest in a REMIC. Excess inclusion income also could be generated if we issue debt obligations, such as certain CRE debt securitizations, with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage related securities securing those debt obligations (i.e., if we were to own an interest in a taxable mortgage pool). While we do not expect to acquire significant amounts of residual interests in REMICs, nor do we currently own residual interests in taxable mortgage pools, we do issue debt in certain CRE debt securitizations that may generate excess inclusion income.

If we realize excess inclusion income, we will be taxed at the highest corporate income tax rate on a portion of such income that is allocable to the percentage of our stock held in record name by “disqualified organizations,” which are generally cooperatives, governmental entities and tax-exempt organizations that are exempt from unrelated business taxable income. To the extent that our stock owned by “disqualified organizations” is held in record name by a broker-dealer or other nominee, the broker/dealer or other nominee would be liable for the corporate level tax on the portion of our excess inclusion income allocable to the stock held by the broker-dealer or other nominee on behalf of “disqualified organizations.” We expect that disqualified organizations will own our stock. Because this tax would be imposed on us, all of our investors, including investors that are not disqualified organizations, would bear a portion of the tax cost associated with the classification of us or a portion of our assets as a taxable mortgage pool. A regulated investment company or other pass through entity owning stock in record name will be subject to tax at the highest corporate rate on any excess inclusion income allocated to its owners that are disqualified organizations. Finally, if we fail to qualify as a REIT, our taxable mortgage pool securitizations will be treated as separate corporations, for federal income tax purposes that cannot be included in any consolidated corporate tax return.

Failure to qualify as a REIT would subject us to federal income tax, which would reduce the cash available for distribution to our stockholders.

We believe that we have been organized and operated in a manner that has enabled us to qualify as a REIT for federal income tax purposes commencing with our taxable year ended on December 31, 2005. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis.

If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we will be subject to federal income tax, including any applicable alternative minimum tax on our taxable income, at regular corporate rates. Distributions to stockholders would not be deductible in computing our taxable income. Corporate tax liability would reduce the amount of cash available for distribution to our stockholders. Under some circumstances, we might need to borrow money or sell assets in order to pay that tax. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for the statutory relief provisions, we no longer would be required to distribute substantially all of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gains, to our stockholders. Unless our failure to qualify as a REIT was excused under federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify. In addition, if we fail to qualify as a REIT, our taxable mortgage pool securitizations will be treated as separate corporations for U.S. federal income tax purposes.

A determination that we have not made required distributions would subject us to tax or require us to pay a deficiency dividend; payment of tax would reduce the cash available for distribution to our stockholders.

In order to qualify as a REIT, in each calendar year we must distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

- 85% of our ordinary income for that year;
- 95% of our capital gain net income for that year; and
- 100% our undistributed taxable income from prior years.

We intend to make distributions to our stockholders in a manner intended to satisfy the 90% distribution requirement and to distribute all or substantially all of our net taxable income to avoid both corporate income tax and the 4% nondeductible excise tax. There is no requirement that a domestic TRS distribute its after-tax net income to its parent REIT or their stockholders and our U.S. TRSs may determine not to make any distributions to us. However, non-U.S. TRSs will generally be deemed to distribute their earnings to us on an annual basis for federal income tax purposes, regardless of whether such TRSs actually distribute their earnings.

Our taxable income may substantially exceed our net income as determined by GAAP because, for example, realized capital losses will be deducted in determining our GAAP net income but may not be deductible in computing our taxable income. In addition, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets, referred to as phantom income. Although some types of phantom income are excluded to the extent they exceed 5% of our REIT taxable income in determining the 90% distribution requirement, we will incur corporate income tax and the 4% nondeductible excise tax with respect to any phantom income items if we do not distribute those items on an annual basis. As a result, we may generate less cash flow than taxable income in a particular year. It is also possible that a loss that we treat as an ordinary loss would be recharacterized as a capital loss. In such event we might have to pay tax for the year in question or pay a deficiency dividend so that we meet the dividends paid requirement for that year. In all such events, we may be required to use cash reserves, incur debt, or liquidate non-cash assets at rates or times that we regard as unfavorable in order to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

If we make distributions in excess of our current and accumulated earnings and profits, they will be treated as a return of capital, which will reduce the adjusted basis of your stock. To the extent such distributions exceed your adjusted basis, you may recognize a capital gain upon distribution.

Unless you are a tax-exempt entity, distributions that we make to you generally will be subject to tax as ordinary income to the extent of our current and accumulated earnings and profits as determined for federal income tax purposes. If the amount we distribute to you exceeds your allocable share of our current and accumulated earnings and profits, the excess will be treated as a return of capital to the extent of your adjusted basis in your stock, which will reduce your basis in your stock but will not be subject to tax. To the extent the amount we distribute to you exceeds both your allocable share of our current and accumulated earnings and profits and your adjusted basis, this excess amount will be treated as a gain from the sale or exchange of a capital asset. For risks related to the use of uninvested offering proceeds or borrowings to fund distributions to stockholders, see - "Risks Related to Our Organization and Structure. - We have not established a minimum distribution payment level and we cannot assure you of our ability to make distributions in the future."

Our ownership of and relationship with our TRSs will be limited and a failure to comply with the limits would jeopardize our REIT qualification and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the securities of one or more TRSs. A TRS may earn specified types of income or hold specified assets that would not be qualifying income or assets if earned or held directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. A TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns, whether or not it distributes that income to us. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

XAN RE TRS will pay federal, state and local income tax on its taxable income, and its after-tax net income is available for distribution to us but is not required to be distributed to us. Income that is not distributed to us by our U.S. TRS will not be subject to the REIT 90% distribution requirement and therefore will not be available for distributions to our stockholders. We anticipate that the aggregate value of the securities we hold in our TRS will be less than 20% of the value of our total assets, including our TRS security. We will monitor the compliance of our investments in TRSs with the rules relating to value of assets and transactions not on an arm's-length basis. We cannot assure you, however, that we will be able to comply with such rules.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Code substantially limit our ability to hedge MBS and related borrowings. Under these provisions, our annual gross income from qualifying and non-qualifying hedges of our borrowings, together with any other income not generated from qualifying real estate assets, cannot exceed 25% of our gross income. In addition, our aggregate gross income from non-qualifying hedges, fees and certain other non-qualifying sources cannot exceed 5% of our annual gross income determined without regard to income from qualifying hedges. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through XAN RE TRS. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were able to sell or securitize loans in a manner that was treated as a sale of the loans for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans and may limit the structures we utilize for our securitization transactions even though such sales or structures might otherwise be beneficial to us.

Legislative, regulatory or administrative changes could adversely affect our stockholders or us.

Legislative, regulatory or administrative changes could be enacted or promulgated at any time, either prospectively or with retroactive effect, and may adversely affect our stockholders and/or us.

The Tax Cuts and Jobs Act, or TCJA, made significant changes to the U.S. federal income tax rules for taxation of individuals and corporations, generally effective for taxable years beginning after December 31, 2017. In addition to reducing corporate and individual tax rates, the TCJA eliminates or restricts various deductions. Most of the changes applicable to individuals are temporary and apply only to taxable years beginning after December 31, 2017 and before January 1, 2026. The TCJA makes numerous large and small changes to the tax rules that do not affect the REIT qualification rules directly but may otherwise affect us or our stockholders.

While the changes in the TCJA generally appear to be favorable with respect to REITs, the extensive changes to non-REIT provisions in the Code may have unanticipated effects on our stockholders or us. Moreover, Congressional leaders have recognized that the process of adopting extensive tax legislation in a short amount of time without hearings and substantial time for review is likely to have led to drafting errors, issues needing clarification and unintended consequences that will have to be revisited in subsequent tax legislation. At this point, it is not clear if or when Congress will address these issues or when the IRS will issue administrative guidance on the changes made in the TCJA.

We urge you to consult with your own tax advisor with respect to the status of the TCJA and other legislative, regulatory or administrative developments and proposals and their potential effect on an investment in shares of our common stock.

Dividends paid by REITs do not qualify for the reduced tax rates provided for under current law.

Dividends paid by REITs are generally not eligible for the reduced 15% maximum tax rate for dividends paid to individuals (20% for those with taxable income above certain thresholds that are adjusted annually under current law). The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends to which more favorable rates apply, which could reduce the value of the stocks of REITs. However, under the TCJA, regular dividends from REITs are treated as income from a pass-through entity and are eligible for a 20% deduction. As a result, our regular dividends are taxed at 80% of an individual's marginal tax rate. The current maximum rate is 37% resulting in a maximum tax rate of 29.6%. Dividends from REITs as well as regular corporate dividends will also be subject to a 3.8% Medicare surtax for taxpayers with modified adjusted gross income above \$200,000 (if single) or \$250,000 (if married and filing jointly).

We may lose our REIT qualification or be subject to a penalty tax if the IRS successfully challenges our characterization of income inclusions from our foreign TRSs.

We likely will be required to include in our income, even without the receipt of actual distributions, earnings from our foreign TRSs, including from our previous investments in CDOs, such as our investment in Apidos CDO I, Ltd., Apidos CDO III, Ltd. and Apidos Cinco CDO. We intend to treat certain of these income inclusions as qualifying income for purposes of the 95% gross income test applicable to REITs but not for purposes of the REIT 75% gross income test. The provisions that set forth what income is qualifying income for purposes of the 95% gross income test provide that gross income derived from dividends, interest and other enumerated classes of passive income qualify for purposes of the 95% gross income test. Income inclusions from equity investments in our foreign TRSs are technically neither dividends nor any of the other enumerated categories of income specified in the 95% gross income test for U.S. federal income tax purposes, and there is no clear precedent with respect to the qualification of such income for purposes of the REIT gross income tests. However, based on advice of counsel, we intend to treat such income inclusions, to the extent distributed by a foreign TRS in the year accrued, as qualifying income for purposes of the 95% gross income test. In addition, in 2011, the IRS issued a private letter ruling to a REIT reaching a result consistent with our treatment. Nevertheless, because this income does not meet the literal requirements of the REIT provisions, it is possible that the IRS could successfully take the position that it is not qualifying income. In the event that it was determined not to qualify for the 95% gross income test, we would be subject to a penalty tax with respect to the income to the extent it and other nonqualifying income exceeds 5% of our gross income and/or we could fail to qualify as a REIT. See "Federal Income Tax Consequences of Our Qualification as a REIT." In addition, if such income was determined not to qualify for the 95% gross income test, we would need to invest in sufficient qualifying assets, or sell some of our interests in our foreign TRSs to ensure that the income recognized by us from our foreign TRSs or such other corporations does not exceed 5% of our gross income, or cease to qualify as a REIT.

We may lose our REIT qualification or be subject to a penalty tax if we modify mortgage loans or acquire distressed debt in a way that causes us to fail our REIT gross income or asset tests.

Many of the terms of our mortgage loans, mezzanine loans and B-notes and the loans supporting our MBS have been modified and may in the future be modified to avoid foreclosure actions and for other reasons. If the terms of the loan are modified in a manner constituting a "significant modification," such modification triggers a deemed exchange for tax purposes of the original loan for the modified loan. Under existing Treasury Regulations, if a loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of (1) the date we agreed to acquire or originate the loan or (2) in the event of certain significant modifications, the date we modified the loan, then a portion of the interest income from such a loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. Although the law is not entirely clear, a portion of the loan may not be treated as a qualifying "real estate asset" for purposes of the 75% asset test. The non-qualifying portion of such a loan would be subject to, among other requirements, the 10% value test.

Revenue Procedure 2011-16, as modified and superseded by Revenue Procedure 2014-51, provides a safe harbor pursuant to which we will not be required to redetermine the fair market value of the real property securing a loan for purposes of the REIT gross income and asset tests in connection with a loan modification that is: (1) occasioned by a borrower default; or (2) made at a time when we reasonably believe that the modification to the loan will substantially reduce a significant risk of default on the original loan. We cannot assure you that all of our loan modifications have qualified or will qualify for the safe harbor in Revenue Procedure 2011-16, as modified and superseded by Revenue Procedure 2014-51. To the extent we significantly modify loans in a manner that does not qualify for that safe harbor, we will be required to redetermine the value of the real property securing the loan at the time it was significantly modified. In determining the value of the real property securing such a loan, we may not obtain third-party appraisals, but rather may rely on internal valuations. No assurance can be provided that the IRS will not successfully challenge our internal valuations. If the terms of our mortgage loans, mezzanine loans and B-notes and loans supporting our MBS are significantly modified in a manner that does not qualify for the safe harbor in Revenue Procedure 2011-16, as modified and superseded by Revenue Procedure 2014-51, and the fair market value of the real property securing such loans has decreased significantly, we could fail the 75% gross income test, the 75% asset test and/or the 10% value test. Unless we qualified for relief under certain cure provisions in the Code, such failures could cause us to fail to qualify as a REIT.

Our subsidiaries and we have invested and may invest in the future in distressed debt, including distressed mortgage loans, mezzanine loans, B-notes and MBS. Revenue Procedure 2011-16, as modified and superseded by Revenue Procedure 2014-51, provides that the IRS will treat a distressed mortgage loan acquired by a REIT that is secured by real property and other property as producing in part non-qualifying income for the 75% gross income test. Specifically, Revenue Procedure 2011-16, as modified and superseded by Revenue Procedure 2014-51, indicates that interest income on a loan will be treated as qualifying income based on the ratio of (1) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan and (2) the face amount of the loan (and not the purchase price or current value of the loan). The face amount of a distressed mortgage loan and other distressed debt will typically exceed the fair market value of the real property securing the debt on the date the REIT commits to acquire the debt. We believe that we will continue to invest in distressed debt in a manner consistent with complying with the 75% gross income test and maintaining our qualification as a REIT.

The failure of a loan subject to a repurchase agreement, a mezzanine loan or a preferred equity investment to qualify as a real estate asset would adversely affect our ability to qualify as a REIT.

We have entered into and we intend to continue to enter into sale and repurchase agreements under which we nominally sell certain of our loan assets to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that we have been and will be treated for U.S. federal income tax purposes as the owner of the loan assets that are the subject of any such agreement notwithstanding that the agreement may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the loan assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

In addition, we have acquired in the past and may continue to acquire mezzanine loans, which are loans secured by equity interest in a partnership or limited liability company that directly or indirectly owns real property, and preferred equity investments, which are senior equity interests in entities that own or acquire real properties. In Revenue Procedure 2003-65, or the Revenue Procedure, the IRS provided a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained in the Revenue Procedure, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We have acquired and may continue to acquire mezzanine loans that may not meet all of the requirements for reliance on this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge the loan's treatment as a real estate asset for purposes of the REIT asset and income tests, and if the challenge were sustained, we could fail to qualify as a REIT.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We maintain offices in New York, New York and Philadelphia, Pennsylvania. Our principal office is located in leased space at 717 Fifth Avenue, New York, New York 10022. We do not own any principal real property.

ITEM 3. LEGAL PROCEEDINGS

We may become involved in litigation on various matters due to the nature of our business activities. The resolution of these matters may result in adverse judgments, fines, penalties, injunctions and other relief against us as well as monetary payments or other agreements and obligations. In addition, we may enter into settlements on certain matters in order to avoid the additional costs of engaging in litigation. Except as discussed below, we are unaware of any contingencies arising from such litigation that would require accrual or disclosure in the consolidated financial statements at December 31, 2019.

Primary Capital Mortgage, LLC ("PCM") is subject to potential litigation related to claims for repurchases or indemnifications on loans that PCM has sold to third parties. At December 31, 2019 and 2018, no such litigation demand was outstanding. Reserves for such potential litigation demands are included in the reserve for mortgage repurchases and indemnifications that totaled \$1.7 million at December 31, 2019 and 2018. The reserves for mortgage repurchases and indemnifications are included in liabilities held for sale on the consolidated balance sheets.

Settled and Dismissed Litigation Matters

We previously disclosed two consolidated shareholder derivative actions filed in the United States District Court for the Southern District of New York (the “Court”) that purported to assert claims on our behalf similar to the claims in the New York State Actions (defined below) (collectively, the “Federal Actions”): (a) by shareholders who declined to make a demand on our board of directors (our “Board”) prior to filing suit (the “Federal Demand Futile Actions”), which comprised a suit filed in January 2017 (the “Greenberg Action”) and another suit filed in January 2017 (the “DeCaro Action”); and (b) by shareholders who served demands on our Board to bring litigation and allege that their demands were wrongfully refused (the “Federal Demand Refused Actions”), which comprised a suit filed in February 2017 (the “McKinney Action”), a suit filed in March 2017 (the “Sherek/Speigel Action”) and a suit filed in April 2017 (the “Sebenoler Action”). In January 2019, the parties to the Federal Actions executed a stipulation and agreement of settlement (the “Federal Actions Settlement Agreement”), which received final approval from the Court on May 17, 2019. Under the Federal Actions Settlement Agreement, we agreed to implement certain corporate governance changes and paid \$550,000 in plaintiffs’ attorneys’ fees, funded by our insurers. In exchange for the settlement consideration, the defendants were released from liability for certain claims, including all claims asserted in the Federal Actions. Among other terms and conditions, the Federal Actions Settlement Agreement provided that the defendants deny any and all allegations of wrongdoing and maintained that they have acted lawfully and in accordance with their fiduciary duties at all times.

We previously disclosed six separate shareholder derivative suits filed in the Supreme Court of New York purporting to assert claims on our behalf (the “New York State Actions”) that were filed on the following dates: December 2015 (the “Reaves Action”); February 2017 (the “Caito Action”); March 2017 (the “Simpson Action”); March 2017 (the “Heckel Action”); May 2017 (the “Schwartz Action”); and August 2017 (the “Greff Action”). Plaintiffs in the Schwartz Action and Greff Action made demands on our Board before filing suit, but plaintiffs in the Reaves Action, Caito Action, Simpson Action and Heckel Action did not. All of the shareholder derivative suits were substantially similar and alleged that certain of our current and former officers and directors breached their fiduciary duties, wasted corporate assets and/or were unjustly enriched. Certain complaints asserted additional claims against Exantas Capital Manager Inc. (our “Manager”) and Resource America, Inc. (“Resource America”) for unjust enrichment based on allegations that our Manager received excessive management fees from us. In June 2019 and July 2019, the Schwartz Action and Greff Action, respectively, were dismissed. In October 2019, the four remaining New York State Actions were dismissed.

We previously disclosed another shareholder derivative action filed in the United States District Court for the District of Maryland against certain of our former officers and directors and our Manager (the “Hafkey Action”). The complaint asserted a breach of fiduciary duty claim that was substantially similar to the claims at issue in the Federal Actions. In May 2019, the plaintiff in the Hafkey Action voluntarily dismissed his suit in light of the settlement and dismissal of the Federal Actions.

We previously disclosed another shareholder derivative action filed in the Maryland Circuit Court against certain of our current and former officers and directors, as well as our Manager and Resource America (the “Canoles Action”). The complaint (as amended) in the Canoles Action asserted a variety of claims, including claims for breach of fiduciary duty, unjust enrichment and corporate waste, which were based on allegations substantially similar to those at issue in the Federal Demand Futile Actions. In July 2019, the plaintiff in the Canoles Action voluntarily dismissed his suit in light of the settlement and dismissal of the Federal Actions.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol “XAN.”

We are organized and conduct our operations to qualify as a real estate investment trust, or REIT, which requires that we distribute at least 90% of our REIT taxable income. Therefore, we intend to continue to declare quarterly distributions on our common stock. No assurance, however, can be given as to the amounts or timing of future distributions as such distributions are subject to our earnings, financial condition, capital requirements and such other factors as our board of directors, or our Board, deems relevant.

At March 6, 2020, there were 32,061,203 shares of common stock outstanding held by 319 holders of record. The 319 holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company, which itself holds shares on behalf of the beneficial owners of our common stock. Such information was obtained through our registrar and transfer agent.

The following table summarizes certain information about our 2005 Stock Incentive Plan and Second Amended and Restated Omnibus Equity Compensation Plan at December 31, 2019:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a)
Equity compensation approved by security holders:			
Options	10,000	\$ 25.60	
Restricted stock	420,962	N/A	
Total	<u>430,962</u>		2,015,179

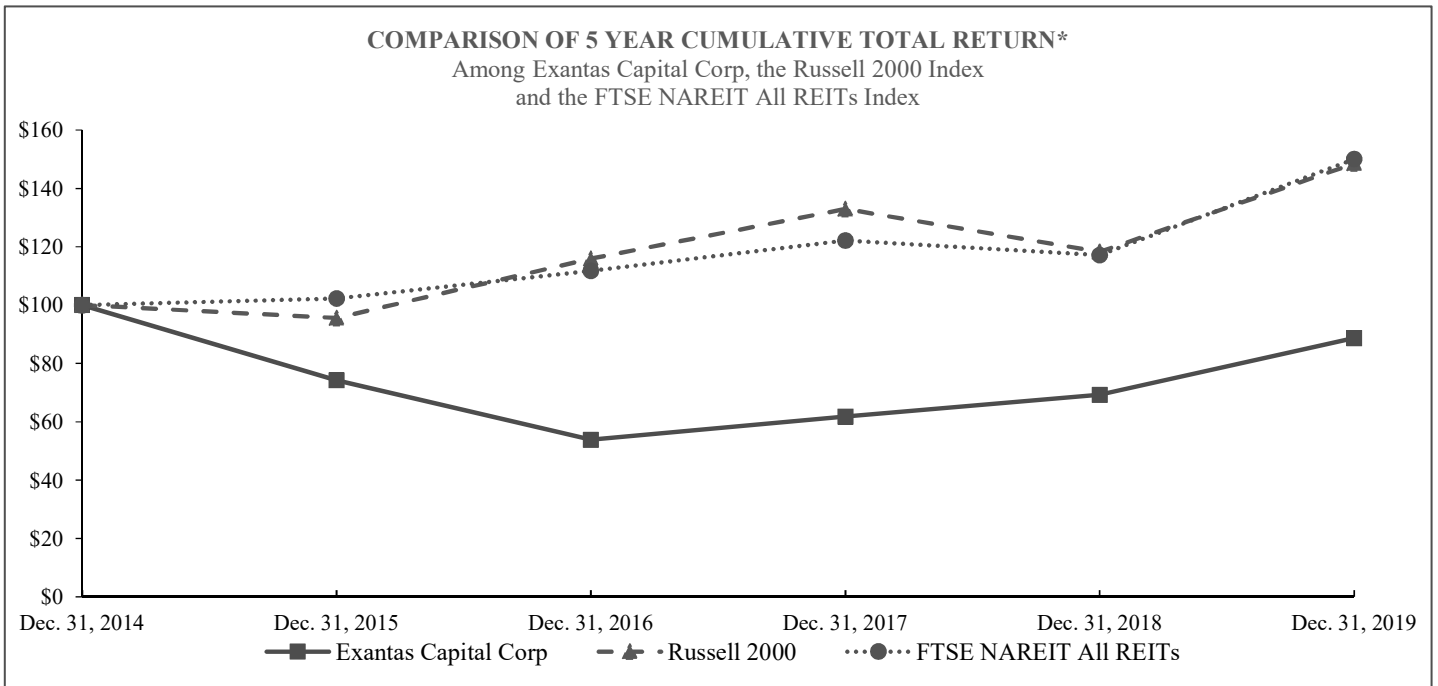
Our 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock, or Series C Preferred Stock, is listed on the NYSE and trades under the symbol “XANPrC.” We have declared and paid the specified quarterly dividend per share of \$0.539063 through January 2020. No dividends are currently in arrears on the Series C Preferred Stock.

Issuer Purchases of Equity Securities

In March 2016, our Board approved a securities repurchase program for up to \$50.0 million of our outstanding securities. During the year ended December 31, 2019, we did not repurchase any shares of our common or preferred stock through this program. At December 31, 2019, \$44.9 million remains available in this repurchase plan.

Performance Graph

The following line graph presentation compares cumulative total shareholder returns on our common stock with the Russell 2000 Index and the FTSE NAREIT All REIT Index for the period from December 31, 2014 to December 31, 2019. The graph and table assume that \$100 was invested in each of our common stock, the Russell 2000 Index and the FTSE NAREIT All REIT Index on December 31, 2014, and that all dividends were reinvested. This data is furnished by the Research Data Group.



*\$100 invested on December 31, 2014 in stock or index, including reinvestment of dividends.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial and operating information should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and accompanying notes included in “Item 8. Financial Statements and Supplementary Data” (dollars in thousands, except per share amounts):

	Years Ended December 31,				
	2019	2018	2017	2016	2015
Consolidated Statements of Operations Data:					
Net interest income	\$ 61,049	\$ 55,163	\$ 41,661	\$ 58,871	\$ 65,388
Net income (loss) from continuing operations	\$ 36,217	\$ 27,306	\$ 47,457	\$ (11,334)	\$ 11,079
Per Share Data: ⁽¹⁾					
Dividends declared per common share	\$ 0.95	\$ 0.475	\$ 0.20	\$ 1.31	\$ 2.34
Net income (loss) per common share - basic:					
Continuing operations	\$ 0.82	\$ 0.22	\$ 0.64	\$ (1.10)	\$ (0.62)
Net income (loss) per common share - diluted:					
Continuing operations	\$ 0.81	\$ 0.22	\$ 0.64	\$ (1.10)	\$ (0.62)
Weighted average number of common shares outstanding - basic	31,430,113	31,198,319	30,836,400	30,539,369	32,280,319
Weighted average number of common shares outstanding - diluted	31,670,356	31,383,102	31,075,787	30,539,369	32,280,319

(1) All per share amounts stated take into account the one-for-four reverse stock split effective on August 31, 2015 as though it were in full effect for all periods presented for comparative purposes.

	At December 31,				
	2019	2018	2017	2016	2015
Consolidated Balance Sheets Data:					
Total assets	\$ 2,454,326	\$ 2,130,913	\$ 1,912,075	\$ 2,053,543	\$ 2,765,562
Borrowings	\$ 1,872,577	\$ 1,554,223	\$ 1,163,485	\$ 1,191,456	\$ 1,621,713
Total Exantas Capital Corp. stockholders’ equity	\$ 556,398	\$ 553,819	\$ 671,476	\$ 704,299	\$ 818,863

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included in "Item 8. Financial Statements and Supplementary Data" of this annual report on Form 10-K.

We have omitted discussion of the earliest of the three years covered by our consolidated financial statements presented in this report as that disclosure is included in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission ("SEC") on March 11, 2019. You are encouraged to reference the discussion and analysis of our results of operations for the year ended December 31, 2017 compared to the year ended December 31, 2018 in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" within that report.

Overview

We are a Maryland corporation and real estate investment trust ("REIT") that is primarily focused on originating, holding and managing commercial real estate ("CRE") mortgage loans and other commercial real estate-related debt investments. We are externally managed by Exantas Capital Manager Inc. (our "Manager"), which is an indirect wholly-owned subsidiary of C-III Capital Partners LLC ("C-III"), a leading commercial real estate investment management and services company engaged in a broad range of activities. C-III is the beneficial owner of 2.4% of our outstanding shares of common stock at December 31, 2019. Our Manager draws upon the management teams of C-III and its subsidiaries and its collective investment experience to provide its services. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategies. We have financed a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of our investments, and we have sought to mitigate interest rate risk through derivative instruments.

We are organized and have elected to be taxed as a REIT for U.S. federal income tax purposes under Subchapter M of the Internal Revenue Code of 1986, as amended. We also intend to operate our business in a manner that will permit us to remain excluded from registration as an investment company under the Investment Company Act of 1940.

Our investment strategy targets the following CRE credit investments, including:

- Floating and fixed-rate first mortgage loans, which we refer to as whole loans. These loans are typically secured by first liens on CRE property, including the following property types: office, multifamily, self-storage, retail, hotel, healthcare, student housing, manufactured housing, industrial and mixed-use.
- First priority interests in first mortgage loans, which we refer to as A-notes. An A-note is typically a privately negotiated loan that is secured by a first mortgage on a commercial property or group of related properties that is senior to a B-note secured by the same first mortgage property or group.
- Subordinated interests in first mortgage loans, which we refer to as B-notes. A B-note is typically a privately negotiated loan that is secured by a first mortgage on a commercial property or group of related properties and is subordinated to an A-note secured by the same first mortgage property or group. B-notes are subject to more credit risk with respect to the underlying mortgage collateral than the corresponding A-note.
- Mezzanine debt that is senior to borrower's equity but is subordinated to other third-party debt. Like B-notes, these loans are also subordinated CRE loans, but are usually secured by a pledge of the borrower's equity ownership in the entity that owns the property or by a second lien mortgage on the property.
- Preferred equity investments that are subordinate to first mortgage loans and mezzanine debt. These investments may be subject to more credit risk than subordinated debt but provide the potential for higher returns upon a liquidation of the underlying property and are typically structured to provide some credit enhancement differentiating it from the common equity in such investments.
- Commercial mortgage-backed securities ("CMBS") that are collateralized by commercial mortgage loans, including senior and subordinated investment grade CMBS, below investment grade CMBS and unrated CMBS.
- CRE investments: We may invest in other income producing real estate debt and equity investments.

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance our ownership of those assets, including corporate debt and from hedging interest rate risks.

We use leverage to enhance our returns, and we have financed each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments is a significant part of our expenses. Our net income depends on our ability to control these expenses relative to our revenue. We have historically financed our CRE loan portfolio with repurchase agreements as a short-term financing source and securitizations and, to a lesser extent, other term financing as long-term financing sources. We expect to continue to use these financing sources into the near term future. At December 31, 2019, our match-funded, floating-rate CRE and CMBS investments, at par, comprised 93% of the core investment portfolio totaling \$2.3 billion. Additionally, in April 2019, we closed a CRE debt securitization that financed \$687.2 million of CRE loans and sold \$575.8 million of non-recourse, floating-rate notes to third party investors.

In March 2020, we priced a CRE debt securitization that will finance CRE loans of \$522.6 million at a weighted average cost of the London Interbank Offered Rate (“LIBOR”) plus 1.43%. The Company intends to purchase \$26.1 million and \$16.3 million of the Class D notes and Class E notes, respectively, upon closing.

We use derivative financial instruments to hedge a portion of the interest rate risk associated with our borrowings. We generally seek to minimize interest rate risk with a strategy that is expected to result in the least amount of volatility under accounting principles generally accepted in the United States of America (“GAAP”) while still meeting our strategic economic objectives and maintaining adequate liquidity and flexibility. These hedging transactions may include interest rate swaps, collars, caps or floors, puts, calls and options.

Our CRE floating-rate loans have LIBOR floors and minimum interest periods that typically range from 12 to 18 months at the time of a loan’s origination. In a lower interest rate environment, our LIBOR floors provide asset yield protection when LIBOR falls below an in-place loan floor. In addition, our net investment returns are enhanced by a decline in the cost of our floating-rate liabilities that do not have LIBOR floors. At December 31, 2019, our \$1.8 billion floating-rate CRE loan portfolio, at par, has a weighted average LIBOR floor of 1.89% and weighted average spread over LIBOR of 3.49%.

In November 2016, our board of directors (our “Board”) approved the strategic plan (the “Plan”) to focus our strategy on CRE debt investments. The Plan contemplated disposing of certain loans underwritten prior to 2010 (“legacy CRE loans”), exiting non-core asset classes and businesses and maintaining a dividend policy based on sustainable earnings.

We have substantially completed the execution of the Plan. As of December 31, 2019, we had approximately \$28.0 million, composed of one legacy CRE loan and an asset held for sale (see Note 23 in “Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements”), remaining of the \$480.1 million identified Plan assets. We have deployed the capital received from executing the Plan primarily into our CRE lending business and CMBS investments, bringing our equity allocation in core assets and non-core assets to 95% and 5%, respectively at both December 31, 2019 and 2018. These investments were initially financed in part through our CRE and CMBS term facilities and, in the case of CRE loans, through securitizations.

We typically target transitional floating-rate CRE loans between \$5.0 million and \$20.0 million. During the year ended December 31, 2019, we acquired 28 CRE loans with total commitments of \$210.8 million from C-III Commercial Mortgage LLC (“C-III Commercial Mortgage”), an affiliate of our Manager, and originated 45 CRE loans with total commitments of \$731.2 million. At December 31, 2019, our CRE loan portfolio comprised approximately \$1.8 billion of floating-rate CRE whole loans with a weighted average spread of 3.49% over one-month LIBOR. Additionally, our CRE loan portfolio comprised one \$4.7 million mezzanine loan and \$26.2 million of preferred equity investments at December 31, 2019. During the year ended December 31, 2019, we acquired CMBS with total face values of \$147.2 million. At December 31, 2019, our \$520.7 million CMBS portfolio, at fair value, comprised of \$382.7 million of floating-rate bonds and \$138.0 million of fixed-rate bonds. We expect to continue to diversify and extend the duration of our core CRE portfolio by investing in CMBS where we see attractive investment opportunities.

In February 2020, we announced the expansion of our CRE debt platform to include fixed-rate CRE loans through the integration of C-III Commercial Mortgage personnel with our Manager. We expect the origination and sales activities related to our fixed-rate CRE loan platform to be conducted in a taxable REIT subsidiary. The loans will be sold to CMBS securitizations. Revenues are generated from the gain on sale of loans, earned as a percentage of the unpaid principal balance of loans sold. Pricing risk created by the movement of interest rates from the date the loan is originated to the date the loan is sold is hedged through the use of derivative financial instruments. We expect the C-III Commercial Mortgage personnel integration to provide our borrowers with a comprehensive offering of transitional to permanent financing solutions.

In January 2020, our 8.00% convertible senior notes due 2020 (“8.00% Convertible Senior Notes”) matured, which resulted in the payoff of the outstanding balance, including accrued interest, totaling \$22.0 million. The maturity of the 8.00% Convertible Senior Notes eliminated approximately \$1.7 million of interest expense on an annual basis.

Common stock book value was \$14.00 per share at December 31, 2019, a \$0.02 per share decrease from December 31, 2018. We began reporting economic book value (a non-GAAP measure) at December 31, 2018 in an effort to improve transparency for our shareholders and the analyst community. Two adjustments are made to common stock book value to arrive at economic book value.

- Our common stock book value includes the remaining aggregate value of the equity conversion options on our convertible senior notes of \$8.1 million, or \$(0.26) per share, at December 31, 2019. The liability balance of our convertible senior notes increases and our common stock book value is reduced as the option discounts are amortized to interest expense.
- The carrying amount of our 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock (“Series C Preferred Stock”) of \$116.0 million does not reflect the full obligation of \$120.0 million, which is the balance on which we pay preferred distributions and would be the amount due should we choose to redeem the Series C Preferred Stock. Adjusting for this \$4.0 million difference, common stock book value would be reduced by \$0.13 per share at December 31, 2019.

Adjusting for these two items yields economic book value of \$13.61 per share at December 31, 2019.

Results of Operations

Our net income allocable to common shares for the year ended December 31, 2019 was \$25.6 million, or \$0.82 per share-basic (\$0.81 per share-diluted), as compared to net income allocable to common shares of \$7.0 million, or \$0.22 per share-basic (\$0.22 per share-diluted), for the year ended December 31, 2018.

Net Interest Income

The following table analyzes the change in interest income and interest expense for the comparative years ended December 31, 2019 and 2018 by changes in volume and changes in rates. The changes attributable to the combined changes in volume and rate have been allocated proportionately, based on absolute values, to the changes due to volume and changes due to rates (dollars in thousands, except amounts in footnotes):

	Year Ended December 31, 2019 Compared to Year Ended December 31, 2018			
	Net Change	Percent Change ⁽¹⁾	Due to Changes in	
			Volume	Rate
Increase (decrease) in interest income:				
CRE whole loans ⁽²⁾	\$ 14,104	14%	\$ 19,445	\$ (5,341)
Legacy CRE loans ⁽²⁾⁽³⁾	(1,109)	(60)%	(1,288)	179
CRE mezzanine loan	206	77%	206	—
CRE preferred equity investments ⁽²⁾	1,059	61%	1,071	(12)
Securities ⁽⁴⁾	7,590	41%	7,217	373
Other	257	68%	257	—
Total increase (decrease) in interest income	22,107	18%	26,908	(4,801)
Increase (decrease) in interest expense:				
Securitized borrowings: ⁽⁵⁾				
RCC 2015-CRE3 Senior Notes	(1,268)	(100)%	(1,268)	—
RCC 2015-CRE4 Senior Notes	(1,472)	(100)%	(1,472)	—
RCC 2017-CRE5 Senior Notes	(6,473)	(75)%	(7,358)	885
XAN 2018-RSO6 Senior Notes	7,522	97%	7,557	(35)
XAN 2019-RSO7 Senior Notes	15,760	100%	15,760	—
Unsecured junior subordinated debentures	140	4%	—	140
Convertible senior notes: ⁽⁵⁾				
4.50% Convertible Senior Notes	244	3%	244	—
6.00% Convertible Senior Notes	(4,814)	(100)%	(4,814)	—
8.00% Convertible Senior Notes	—	—%	—	—
CRE - term repurchase facilities ⁽⁵⁾	4,439	25%	3,558	881
CMBS - term repurchase facilities	(390)	(67)%	(226)	(164)
Trust certificates - term repurchase facilities ⁽⁵⁾	(2,315)	(55)%	(2,364)	49
CMBS - short term repurchase agreements	4,879	83%	5,073	(194)
Hedging	(31)	(18)%	(31)	—
Total increase in interest expense	16,221	24%	14,659	1,562
Net increase (decrease) in net interest income	\$ 5,886		\$ 12,249	\$ (6,363)

(1) Percent change is calculated as the net change divided by the respective interest income or interest expense for the year ended December 31, 2018.

(2) Includes increases in fee income of approximately \$187,000 and \$133,000 on CRE whole loans and the CRE preferred equity investments, respectively, and a decrease of approximately \$407,000 recognized on legacy CRE loans that were due to changes in volume.

(3) Includes the change in interest income recognized on two legacy CRE loans reclassified to CRE loans from assets held for sale on the consolidated balance sheet in 2018. One of the reclassified legacy CRE loans paid off at par in December 2018.

(4) Includes a decrease from net accretion income of approximately \$259,000 that was due to changes in volume.

(5) Includes increases of net amortization expense of approximately \$1.7 million and \$520,000 on our securitized borrowings and CRE - term repurchase facilities, respectively, and decreases of approximately \$684,000 and \$13,000 on our convertible senior notes and trust certificates - term repurchase facilities, respectively, that were due to changes in volume.

Net Change in Interest Income for the Comparative Years Ended December 31, 2019 and 2018:

Aggregate interest income increased by \$22.1 million for the comparative years ended December 31, 2019 and 2018. We attribute the change to the following:

CRE whole loans. The increase of \$14.1 million for the comparative years ended December 31, 2019 and 2018 was primarily attributable to an increase in the outstanding balance of CRE whole loans in connection with loan originations and acquisitions, net of loan repayments of \$229.6 million for the year ended December 31, 2019. The volume increase was partially offset by decreases in the yields on CRE whole loans, attributable to declines in the spreads on the originated CRE whole loans over the comparative periods.

Legacy CRE loans. The decrease of \$1.1 million for the comparative years ended December 31, 2019 and 2018 was primarily attributable to one legacy CRE loan that paid off in December 2018.

CRE mezzanine loan. The increase of \$206,000 for the comparative years ended December 31, 2019 and 2018 was attributable to the recognition of a full year of interest income on our June 2018 investment in a mezzanine loan with an outstanding principal balance of \$4.7 million and a 10.00% interest rate.

CRE preferred equity investments. The increase of \$1.1 million for the comparative years ended December 31, 2019 and 2018 was attributable to the recognition of a full year of interest income on our March 2018 investment in a preferred equity interest with an outstanding principal balance of \$20.4 million and an 11.50% interest rate and the close of our June 2019 investment in a preferred equity interest with an outstanding principal balance of \$5.8 million and an 11.00% interest rate.

Securities. The increase of \$7.6 million for the comparative years ended December 31, 2019 and 2018 was primarily attributable to acquisitions, net of sales and repayments, of CMBS of \$90.2 million during the year ended December 31, 2019 and increases in coupon rates on our floating-rate CMBS over the comparative periods.

Other. The increase of \$257,000 for the comparative years ended December 31, 2019 and 2018 was primarily attributable to higher average balances in our interest earning money market accounts during the year ended December 31, 2019 compared to the year ended December 31, 2018.

Net Change in Interest Expense for the Comparative Years Ended December 31, 2019 and 2018:

Aggregate interest expense increased by \$16.2 million for the comparative years ended December 31, 2019 and 2018. We attribute the change to the following:

Securitized borrowings. The total net increase of \$14.1 million for the comparative years ended December 31, 2019 and 2018 was primarily attributable to the issuances of Exantas Capital Corp. 2018-RSO6, Ltd. (“XAN 2018-RSO6”) and Exantas Capital Corp. 2019-RSO7, Ltd. (“XAN 2019-RSO7”), which closed in June 2018 and April 2019, respectively. The increases were offset by the liquidations of Resource Capital Corp. 2015-CRE4, Ltd. (“RCC 2015-CRE4”), Resource Capital Corp. 2015-CRE3, Ltd. (“RCC 2015-CRE3”) and Resource Capital Corp. 2017-CRE5, Ltd. (“RCC 2017-CRE5”) in July 2018, August 2018 and July 2019, respectively.

Convertible senior notes. The net decrease of \$4.6 million for the comparative years ended December 31, 2019 and 2018 was primarily attributable to the redemption of our 6.00% convertible senior notes in December 2018.

CRE - term repurchase facilities. The increase of \$4.4 million for the comparative years ended December 31, 2019 and 2018 was primarily attributable to additional CRE loans financed on the CRE term repurchase facilities in addition to an increase in the weighted average one-month LIBOR over the comparative periods then ended.

CMBS - term repurchase facilities & CMBS - short-term repurchase agreements. The decrease of \$390,000 and increase of \$4.9 million on the CMBS - term repurchase facilities and CMBS - short-term repurchase agreements, respectively, for the comparative years ended December 31, 2019 and 2018 were primarily attributable to our increased utilization of short term repurchase agreements to finance CMBS acquired in 2018 and 2019 and decreased utilization of longer term facilities in 2018.

Trust certificates - term repurchase facilities. The decrease of \$2.3 million for the comparative years ended December 31, 2019 and 2018 was primarily attributable to the repayment of the RSO Repo SPE Trust 2015 and RSO Repo SPE Trust 2017 facilities in July 2018 and July 2019, respectively.

The following table presents the average net yield and average cost of funds for the years ended December 31, 2019 and 2018 (dollars in thousands, except amounts in footnotes):

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Average Amortized Cost	Interest Income (Expense)	Average Net Yield (Cost of Funds) ⁽¹⁾	Average Amortized Cost	Interest Income (Expense)	Average Net Yield (Cost of Funds) ⁽¹⁾
Interest-earning assets						
CRE whole loans ⁽²⁾	\$ 1,724,415	\$ 114,048	6.61%	\$ 1,415,753	\$ 99,944	7.06%
Legacy CRE loans ⁽²⁾	35,564	747	2.10%	66,687	1,856	2.78%
CRE mezzanine loan	4,700	475	9.97%	2,665	269	10.10%
CRE preferred equity investment ⁽²⁾	22,923	2,790	12.17%	14,665	1,731	11.80%
Securities ⁽³⁾	454,193	26,190	5.75%	298,769	18,600	6.23%
Other	14,131	636	4.44%	10,476	379	3.57%
Total interest income/average net yield	2,255,926	144,886	6.42%	1,809,015	122,779	6.79%
Interest-bearing liabilities						
Collateralized by:						
CRE whole loans ⁽⁴⁾	1,216,730	(55,759)	(4.58)%	809,976	(37,251)	(4.60)%
Securities	317,641	(10,951)	(3.45)%	184,558	(6,462)	(3.50)%
General corporate debt:						
Unsecured junior subordinated debentures	51,548	(3,340)	(6.39)%	51,548	(3,200)	(6.12)%
4.50% Convertible Senior Notes ⁽⁵⁾	131,913	(9,835)	(7.35)%	128,670	(9,591)	(7.35)%
6.00% Convertible Senior Notes ⁽⁵⁾	—	—	—%	64,239	(4,814)	(7.39)%
8.00% Convertible Senior Notes ⁽⁵⁾	21,059	(1,923)	(9.00)%	20,831	(1,923)	(9.10)%
Trust certificates - term repurchase facilities ⁽⁶⁾	24,649	(1,891)	(7.67)%	61,882	(4,206)	(6.80)%
Hedging ⁽⁷⁾	85,139	(138)	(0.16)%	61,354	(169)	(0.31)%
Total interest expense/average cost of funds	1,848,679	(83,837)	(4.52)%	1,383,058	(67,616)	(4.87)%
Total net interest income/average spread		\$ 61,049			\$ 55,163	

(1) Average net yield includes net amortization/accretion and fee income.

(2) Includes fee income of approximately \$7.8 million, \$103,000 and \$162,000 recognized on our CRE whole loans, legacy CRE loans and our CRE preferred equity investments, respectively, for the year ended December 31, 2019 and approximately \$7.6 million, \$510,000 and \$29,000 on our CRE whole loans, legacy CRE loans and our CRE preferred equity investments, respectively, for the year ended December 31, 2018.

(3) Includes net accretion income of approximately \$2.7 million and \$2.9 million for the years ended December 31, 2019 and 2018, respectively, on our CMBS securities.

(4) Includes amortization expense of approximately \$8.4 million and \$6.2 million for the years ended December 31, 2019 and 2018, respectively, on our interest-bearing liabilities collateralized by CRE whole loans.

(5) Includes aggregated amortization expense of approximately \$3.6 million and \$4.3 million for the years ended December 31, 2019 and 2018, respectively, on our convertible senior notes.

(6) Includes amortization expense of approximately \$279,000 and \$292,000 for the years ended December 31, 2019 and 2018, respectively, on our trust certificates - term repurchase facilities.

(7) Includes accretion income of approximately \$91,000 for the year ended December 31, 2019 on two terminated interest rate swap agreements that were in a gain position at the time of termination. The remaining gains, reported in accumulated other comprehensive income (loss) on the consolidated balance sheets, will be accreted over the remaining life of the debt.

Operating Expenses

Year Ended December 31, 2019 as compared to the Year Ended December 31, 2018

The following table sets forth information relating to our operating expenses for the years presented (dollars in thousands):

	Years Ended December 31,			Percent Change
	2019	2018	Dollar Change	
Operating expenses:				
Management fees	\$ 8,954	\$ 11,250	\$ (2,296)	(20)%
Equity compensation	2,212	2,717	(505)	(19)%
General and administrative	10,392	10,666	(274)	(3)%
Depreciation and amortization	47	77	(30)	(39)%
Impairment losses	—	934	(934)	(100)%
Provision for (recovery of) loan losses, net	58	(1,595)	1,653	104%
Total	\$ 21,663	\$ 24,049	\$ (2,386)	(10)%

Management fees. The decrease of \$2.3 million for the comparative years ended December 31, 2019 and 2018 was primarily attributable to our base management fee reverting from a fixed amount of \$937,500 per month from October 1, 2017 to December 31, 2018 per our Third Amended and Restated Management Agreement, as amended (“Management Agreement”) to an amount equal to 1/12th of the amount of our equity multiplied by 1.50%. The base management fee decline over the comparative periods was partially offset by incentive compensation of \$606,000 earned by our Manager during the year ended December 31, 2019. No incentive compensation was earned by our Manager during the year ended December 31, 2018.

Equity compensation. The decrease of \$505,000 for the comparative years ended December 31, 2019 and 2018 was attributable to the adoption of updated guidance issued by the Financial Accounting Standards Board (“FASB”) that discontinued the remeasurement of all unvested issuances of restricted stock and options after the initial grant date during the year ended December 31, 2019. Additionally, the decrease was attributable to accelerations of certain restricted stock awards during the year ended December 31, 2018.

General and administrative. General and administrative expenses decreased by \$274,000 for the comparative years ended December 31, 2019 and 2018. The following table summarizes the information relating to our general and administrative expenses for the years presented (dollars in thousands):

	Years Ended December 31,			Percent Change
	2019	2018	Dollar Change	
General and administrative				
Wages and benefits	\$ 2,806	\$ 3,365	\$ (559)	(17)%
Professional services	3,348	3,307	41	1%
D&O insurance	1,138	1,165	(27)	(2)%
Operating expenses	1,082	847	235	28%
Director fees	684	655	29	4%
Dues and subscriptions	606	619	(13)	(2)%
Rent and utilities	318	331	(13)	(4)%
Travel	262	294	(32)	(11)%
Tax penalties, interest & franchise tax	148	83	65	78%
Total	<u>\$ 10,392</u>	<u>\$ 10,666</u>	<u>\$ (274)</u>	(3)%

The decrease in general and administrative expenses for the comparative years ended December 31, 2019 and 2018 was primarily attributable to a decrease of \$559,000 in wages and benefits offset by an increase of allocated operating expenses from our Manager of \$235,000.

Impairment losses. The decrease of \$934,000 for the comparative years ended December 31, 2019 and 2018 was primarily attributable to the realization of a \$934,000 other-than-temporary impairment loss on one CMBS position with an amortized cost of \$934,000 acquired in 2007 during the year ended December 31, 2018.

Provision for (recovery of) loan losses, net. The decrease of \$1.7 million from a recovery to a provision for loan losses for the comparative years ended December 31, 2019 and 2018 was primarily attributable to a decrease in the general reserve of approximately \$1.7 million during the year ended December 31, 2018 in connection with two loans that repaid and three loans that were upgraded due to improved performance of the underlying collateral.

Other Income (Expense)

Year Ended December 31, 2019 as compared to Year Ended December 31, 2018

The following table sets forth information relating to our other expense for the years presented (dollars in thousands):

	Years Ended December 31,			Percent Change
	2019	2018	Dollar Change	
Other income (expense):				
Equity in earnings of unconsolidated entities	\$ —	\$ 217	\$ (217)	(100)%
Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives	4	639	(635)	(99)%
Net realized and unrealized gain on investment securities, trading	—	53	(53)	(100)%
Fair value adjustments on financial assets held for sale	(4,682)	(7,176)	2,494	35%
Other income	1,408	1,996	(588)	(29)%
Total	<u>\$ (3,270)</u>	<u>\$ (4,271)</u>	<u>\$ 1,001</u>	23%

Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives. The decrease of \$635,000 for the comparative years ended December 31, 2019 and 2018 was primarily attributable to a realized gain of \$352,000 on the sale of one investment security available-for-sale, a realized gain of \$1.0 million attributable to the payoff on one legacy CRE loan, net losses of approximately \$463,000 on our life settlement contract portfolio, and a realized loss of \$217,000 on the sale of one asset-backed security during the year ended December 31, 2018.

Fair value adjustments on financial assets held for sale. The change of \$2.5 million for the comparative years ended December 31, 2019 and 2018 was primarily attributable to charges of \$4.7 million and \$7.2 million, respectively, on the remaining legacy CRE loan held for sale, which included protective advances to cover borrower operating losses of \$1.2 million and \$1.7 million, respectively, in connection with the receipt of updated valuations received by third parties. The legacy CRE loan held for sale was foreclosed upon in November 2019 and was classified as an asset held for sale at December 31, 2019.

Other income. The decrease of \$588,000 for the comparative years ended December 31, 2019 and 2018 was primarily attributable to the receipt of \$1.4 million of dividend income on an investment held at Apidos CDO I, Ltd. (“Apidos CDO I”) and Apidos CDO III, Ltd. (“Apidos CDO III”) with no carrying value and the receipt of \$478,000 of cash in excess of the carrying value of an asset secured by collateral management fees during the year ended December 31, 2018. The decrease was partially offset by the recovery of \$647,000 of the reserve for the Pearlmark Mezzanine Realty Partners IV, L.P. (“Pearlmark Mezz”) indemnification during the year ended December 31, 2019.

Net Income (Loss) From Discontinued Operations, Net of Tax

As we discussed in the “Overview” section, in November 2016, our Board approved the Plan that would allow us to focus on making CRE debt investments and disposing of certain underperforming legacy CRE loans, exiting underperforming non-core asset classes and investments and establishing a dividend policy based on sustainable earnings. We met all of the criteria to classify the operating results of the residential mortgage and middle market lending segments as discontinued operations and exclude them from continuing operations for all periods presented. In addition, we transferred the assets and liabilities of Life Care Funding, LLC and certain legacy CRE loans to held for sale in the fourth quarter of 2016. As of December 31, 2019, we disposed of substantially all of the non-CRE assets identified for sale. For the year ended December 31, 2019, we recognized a \$251,000 net loss from discontinued operations compared to net income of \$121,000 for the year ended December 31, 2018. This was primarily attributable to the disposition of the assets held for sale and wind down of the operations.

The following table summarizes the operating results of the residential mortgage and middle market lending segments’ discontinued operations as reported separately as net income (loss) from discontinued operations, net of tax for the years ended December 31, 2019 and 2018 (in thousands):

	Years Ended December 31,	
	2019	2018
REVENUES		
Interest income:		
Loans	\$ —	\$ 580
Other	—	13
Total interest income	—	593
Interest expense	—	—
Net interest income	—	593
Other revenue	24	407
Total revenues	24	1,000
OPERATING EXPENSES		
General and administrative	410	1,300
Total operating expenses	410	1,300
	(386)	(300)
OTHER INCOME (EXPENSE)		
Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives	135	421
Fair value adjustments on financial assets held for sale	—	—
Total other income	135	421
(LOSS) INCOME FROM DISCONTINUED OPERATIONS BEFORE TAXES	(251)	121
Income tax expense	—	—
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAXES	(251)	121
Loss from disposal of discontinued operations	—	—
TOTAL (LOSS) INCOME FROM DISCONTINUED OPERATIONS	\$ (251)	\$ 121

Financial Condition

Summary

Our total assets were \$2.5 billion at December 31, 2019 as compared to \$2.1 billion at December 31, 2018. The increase was primarily attributable to the origination and acquisition of CRE loans and acquisitions of CMBS financed through the use of a CRE debt securitization, term repurchase facilities and short-term repurchase agreements.

Investment Portfolio

The tables below summarize the amortized cost and net carrying amount of our investment portfolio, classified by asset type, at December 31, 2019 and 2018 as follows (dollars in thousands, except amounts in footnotes):

At December 31, 2019	Amortized Cost	Net Carrying Amount	Percent of Portfolio	Weighted Average Coupon
Loans held for investment:				
CRE whole loans ⁽¹⁾	\$ 1,760,597	\$ 1,759,137	76.08%	5.52%
CRE mezzanine loans	4,700	4,700	0.20%	10.00%
CRE preferred equity investments	26,148	26,148	1.13%	11.39%
	<u>1,791,445</u>	<u>1,789,985</u>	<u>77.41%</u>	
Investments securities available-for-sale:				
CMBS, fixed-rate	132,235	138,039	5.97%	4.10%
CMBS, floating-rate	382,659	382,675	16.55%	4.39%
	<u>514,894</u>	<u>520,714</u>	<u>22.52%</u>	
Other investments: ⁽²⁾				
Investments in unconsolidated entities	1,548	1,548	0.07%	N/A ⁽³⁾
Total investment portfolio	<u>\$ 2,307,887</u>	<u>\$ 2,312,247</u>	<u>100.00%</u>	

At December 31, 2018	Amortized Cost	Net Carrying Amount	Percent of Portfolio	Weighted Average Coupon
Loans held for investment:				
CRE whole loans ⁽¹⁾	\$ 1,529,113	\$ 1,527,712	77.45%	6.33%
CRE mezzanine loans	4,700	4,700	0.24%	10.00%
CRE preferred equity investment	19,555	19,555	0.99%	11.50%
	<u>1,553,368</u>	<u>1,551,967</u>	<u>78.68%</u>	
Investments securities available-for-sale:				
CMBS, fixed-rate	121,487	119,739	6.07%	4.12%
CMBS, floating-rate	301,132	299,259	15.17%	5.11%
	<u>422,619</u>	<u>418,998</u>	<u>21.24%</u>	
Other investments: ⁽²⁾				
Investments in unconsolidated entities	1,548	1,548	0.08%	N/A ⁽³⁾
Total investment portfolio	<u>\$ 1,977,535</u>	<u>\$ 1,972,513</u>	<u>100.00%</u>	

(1) Net carrying amount includes an allowance for loan losses of \$1.5 million and \$1.4 million at December 31, 2019 and 2018, respectively.

(2) Excludes one asset classified as held for sale at December 31, 2019 and 2018.

(3) There were no stated rates associated with these investments.

CRE loans. During the twelve months ended December 31, 2019, we originated \$731.2 million and acquired \$210.8 million of CRE loan commitments (of which \$53.1 million and \$14.0 million, respectively, were unfunded loan commitments), funded \$43.2 million of previously unfunded loan commitments and received \$682.8 million of payoffs and paydowns. Included in the loan activities were \$77.3 million of CRE loan commitments and \$65.0 million of payoffs in connection with the refinancing of CRE loans during the twelve months ended December 31, 2019.

The following is a summary of our loans (dollars in thousands, except amounts in footnotes):

Description	Quantity	Principal	Unamortized (Discount) Premium, net ⁽¹⁾	Amortized Cost	Allowance for Loan Losses	Carrying Value	Contractual Interest Rates	Maturity Dates ⁽²⁾⁽³⁾⁽⁴⁾
At December 31, 2019:								
CRE loans held for investment:								
Whole loans ⁽⁵⁾⁽⁶⁾	112	\$ 1,768,322	\$ (7,725)	\$ 1,760,597	\$ (1,460)	\$ 1,759,137	1M LIBOR plus 2.70% to 1M LIBOR plus 6.25%	January 2020 to October 2023
Mezzanine loan	1	4,700	—	4,700	—	4,700	10.00%	June 2028
Preferred equity investment ⁽⁶⁾⁽⁷⁾⁽⁸⁾	2	26,237	(89)	26,148	—	26,148	11.00% to 11.50%	June 2022 to April 2023
Total CRE loans held for investment		<u>\$ 1,799,259</u>	<u>\$ (7,814)</u>	<u>\$ 1,791,445</u>	<u>\$ (1,460)</u>	<u>\$ 1,789,985</u>		

At December 31, 2018:

CRE loans held for investment:								
Whole loans ⁽⁵⁾⁽⁶⁾	79	\$ 1,538,759	\$ (9,646)	\$ 1,529,113	\$ (1,401)	\$ 1,527,712	1M LIBOR plus 2.70% to 1M LIBOR plus 6.25%	January 2019 to January 2022
Mezzanine loan	1	4,700	—	4,700	—	4,700	10.00%	June 2028
Preferred equity investment ⁽⁶⁾⁽⁷⁾⁽⁸⁾	1	19,718	(163)	19,555	—	19,555	11.50%	April 2023
Total CRE loans held for investment		<u>\$ 1,563,177</u>	<u>\$ (9,809)</u>	<u>\$ 1,553,368</u>	<u>\$ (1,401)</u>	<u>\$ 1,551,967</u>		

- (1) Amounts include unamortized loan origination fees of \$9.1 million and \$9.6 million and deferred amendment fees of \$72,000 and \$171,000 at December 31, 2019 and 2018, respectively. Additionally, the amounts include unamortized loan acquisition costs of \$1.3 million at December 31, 2019. There were no unamortized loan acquisition costs at December 31, 2018.
- (2) Maturity dates exclude contractual extension options, subject to the satisfaction of certain terms, which may be available to the borrowers.
- (3) Maturity dates exclude one whole loan, with an amortized cost of \$11.5 million, in maturity default and performing with respect to debt service due in accordance with a forbearance agreement at December 31, 2019 and 2018.
- (4) Maturity dates include one whole loan with an original maturity date in January 2020 that was granted a six month extension in January 2020.
- (5) Substantially all loans are pledged as collateral under various borrowings at December 31, 2019 and 2018.
- (6) Whole loans had \$98.0 million and \$105.7 million in unfunded loan commitments at December 31, 2019 and 2018, respectively. Preferred equity investments had \$3.0 million in unfunded commitments at December 31, 2019. There were no preferred equity investment unfunded commitments at December 31, 2018. These unfunded loan commitments are advanced as the borrowers formally request additional funding as permitted under the loan agreement and any necessary approvals have been obtained.
- (7) The interest rate on our preferred equity investments pay at 8.00%. The remaining interest is deferred until maturity.
- (8) Beginning in April 2023, we have the right to unilaterally force the sale of the Prospect Hackensack JV LLC's underlying property. Beginning in June 2022, we have the right to unilaterally force the sale of WC Newhall MM, LLC's underlying property.

At December 31, 2019, approximately 19.5%, 19.4% and 17.6% of our CRE loan portfolio was concentrated in the Mountain, Southwest and Southeast regions, respectively, based on carrying value, as defined by the National Council of Real Estate Investment Fiduciaries. At December 31, 2018, approximately 32.3%, 20.9% and 17.1% of our CRE loan portfolio was concentrated in the Southwest, Mountain, and Pacific regions, respectively, based on carrying value.

CMBS. During the year ended December 31, 2019, we purchased 20 CMBS securities with aggregate face values of \$147.2 million, for a cost of \$146.5 million, sold one CMBS security with an aggregate face value of \$634,000 for proceeds of \$638,000 received in June 2019 and received paydowns of \$56.4 million. At December 31, 2019 and 2018, the remaining discount to be accreted into income over the remaining lives of the securities was \$42.2 million and \$43.9 million, respectively. At December 31, 2019 and 2018, the remaining premium to be amortized into income over the remaining lives of the securities was \$795,000 and \$466,000, respectively. These securities are classified as available-for-sale and carried at fair value.

The following table summarizes the activities in our CMBS investments at fair value for the year ended December 31, 2019 (in thousands, except amounts in the footnote):

	Fair Value at December 31, 2018	Net Purchases (Sales) ⁽¹⁾⁽²⁾	Net Upgrades (Downgrades)	Paydowns ⁽³⁾	MTM Change on Same Ratings	Fair Value at December 31, 2019
Moody's ratings category:						
Aaa	\$ 5,954	\$ —	\$ —	\$ (2,203)	\$ (118)	\$ 3,633
Aa1 through Aa3	—	—	874	(855)	—	19
A1 through A3	—	—	—	—	—	—
Baa1 through Baa3	10,084	—	(2,116)	—	1,003	8,971
Ba1 through Ba3	4,921	—	(2,892)	(363)	3	1,669
B1 through B3	—	—	—	—	—	—
Caa1 through Caa3	—	—	—	—	—	—
Ca through C	—	—	—	—	—	—
Non-Rated	398,039	145,883	4,134	(52,874)	11,240	506,422
Total	<u>\$ 418,998</u>	<u>\$ 145,883</u>	<u>\$ —</u>	<u>\$ (56,295)</u>	<u>\$ 12,128</u>	<u>\$ 520,714</u>

S&P ratings category:

AAA	\$ 117	\$ —	\$ (117)	\$ —	\$ —	\$ —
AA+ through AA-	—	—	—	—	—	—
A+ through A-	5,298	—	(5,298)	—	—	—
BBB+ through BBB-	29,254	2,989	3,325	(855)	2,958	37,671
BB+ through BB-	92,649	25,021	(9,463)	(6,178)	291	102,320
B+ through B-	22,124	5,318	—	—	538	27,980
CCC+ through CCC-	—	—	—	—	—	—
D	—	—	—	—	—	—
Non-Rated	269,556	112,555	11,553	(49,262)	8,341	352,743
Total	<u>\$ 418,998</u>	<u>\$ 145,883</u>	<u>\$ —</u>	<u>\$ (56,295)</u>	<u>\$ 12,128</u>	<u>\$ 520,714</u>

Fitch ratings category:

AAA	\$ 4,351	\$ —	\$ —	\$ (1,925)	\$ (126)	\$ 2,300
AA+ through AA-	—	—	—	—	—	—
A+ through A-	118	—	(118)	—	—	—
BBB+ through BBB-	64,018	4,882	(2,405)	—	6,327	72,822
BB+ through BB-	12,257	—	(2,892)	—	922	10,287
B+ through B-	60,072	—	(5,014)	(363)	600	55,295
CCC	—	—	—	—	—	—
CC through D	—	—	—	—	—	—
Non-Rated	278,182	141,001	10,429	(54,007)	4,405	380,010
Total	<u>\$ 418,998</u>	<u>\$ 145,883</u>	<u>\$ —</u>	<u>\$ (56,295)</u>	<u>\$ 12,128</u>	<u>\$ 520,714</u>

(1) During the year ended December 31, 2019, we acquired \$21.7 million of CMBS, at a cost of \$20.9 million, with a weighted average spread, based on cost, of 3.06% over the interpolated interest rate swap curve and \$125.6 million of CMBS, at a cost of \$125.6 million, with a weighted average spread, based on face value, of 2.47% over LIBOR.

(2) Includes the derecognition of mark-to-market other comprehensive income and net realized gains and losses on sold CMBS.

(3) Includes non-cash adjustments in connection with the recalculation of the accretable yield on certain interest-only CMBS.

The following table summarizes our CMBS investments earning coupon interest at fixed-rates or floating-rates at December 31, 2019 and 2018 (dollars in thousands, except amounts in the footnote):

	Face Value	Amortized Cost	Fair Value	Coupon Rates
At December 31, 2019:				
CMBS, fixed-rate ⁽¹⁾	\$ 199,701	\$ 132,235	\$ 138,039	2.88% - 8.48%
CMBS, floating-rate	382,439	382,659	382,675	3.60% - 5.70%
Total	<u>\$ 582,140</u>	<u>\$ 514,894</u>	<u>\$ 520,714</u>	
At December 31, 2018:				
CMBS, fixed-rate ⁽¹⁾	\$ 190,601	\$ 121,487	\$ 119,739	2.88% - 8.48%
CMBS, floating-rate	301,254	301,132	299,259	4.25% - 6.48%
Total	<u>\$ 491,855</u>	<u>\$ 422,619</u>	<u>\$ 418,998</u>	

(1) Face value includes \$25.9 million, with a total cost basis of \$106,000, of CMBS that have been subject to other-than-temporarily-impairment charges at December 31, 2019 and 2018.

Investments in unconsolidated entities. The following table shows our investments in unconsolidated entities and equity in earnings of unconsolidated entities for the years ended December 31, 2019 and 2018 (dollars in thousands, except amount in the footnotes):

	Ownership % at December 31, 2019	December 31,		Equity in Earnings of Unconsolidated Entities Years Ended December 31,	
		2019	2018	2019	2018
Pelium Capital ⁽¹⁾	—%	\$ —	\$ —	\$ —	\$ (182)
RCM Global LLC ⁽²⁾	—%	—	—	—	(12)
Investment in LCC Preferred Stock ⁽³⁾	—%	—	—	—	411
Subtotal		—	—	—	217
Investment in RCT I and II ⁽⁴⁾	3.0%	1,548	1,548	100	96
Total		<u>\$ 1,548</u>	<u>\$ 1,548</u>	<u>\$ 100</u>	<u>\$ 313</u>

(1) During the year ended December 31, 2018, we received distributions of \$10.4 million on our investment in Pelium Capital Partners, L.P. ("Pelium Capital"). In December 2018, Pelium Capital was fully liquidated.

(2) In December 2018, RCM Global LLC was fully liquidated.

(3) Our investment in LEAF Commercial Capital, Inc. ("LCC") liquidated in July 2017 as a result of the sale of LCC. Earnings for year ended December 31, 2018 were related to the receipt of a distribution of funds formerly held in escrow accounts established as part of the sale.

(4) For the years ended December 31, 2019 and 2018, dividends from the investments in Resource Capital Trust I ("RCT I") and RCC Trust II's ("RCT II") common shares are recorded in other revenue. See Note 10 in "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements" for the disclosures on the associated unsecured junior subordinated debentures.

Financing Receivables

The following tables show the activity in the allowance for loan losses for the years ended December 31, 2019 and 2018 and the allowance for loan losses and recorded investments in loans at December 31, 2019 and 2018 (in thousands, except amount in the footnote):

	Years Ended December 31,	
	2019	2018
	Commercial Real Estate Loans	Commercial Real Estate Loans
Allowance for loan losses:		
Allowance for loan losses at beginning of year	\$ 1,401	\$ 5,328
Provision for (recovery of) loan losses, net ⁽¹⁾	59	(1,595)
Loans charged-off	—	(2,332)
Allowance for loan losses at end of year	<u>\$ 1,460</u>	<u>\$ 1,401</u>

(1) Excludes the recovery of loan losses on one bank loan with no amortized cost or carrying value at December 31, 2019 and 2018 that received a payment of approximately \$1,000 during the year ended December 31, 2019.

	December 31,	
	2019	2018
	Commercial Real Estate Loans	Commercial Real Estate Loans
Allowance for loan losses ending balance:		
Individually evaluated for impairment	\$ —	\$ —
Collectively evaluated for impairment	\$ 1,460	\$ 1,401
Loans:		
Amortized cost ending balance:		
Individually evaluated for impairment ⁽¹⁾	\$ 30,848	\$ 24,255
Collectively evaluated for impairment	\$ 1,760,597	\$ 1,529,113

(1) Our mezzanine loan and preferred equity investments are evaluated individually for impairment.

Credit quality indicators

Commercial Real Estate Loans

CRE loans are collateralized by a diversified mix of real estate properties and are assessed for credit quality based on the collective evaluation of several factors, including but not limited to: collateral performance relative to underwritten plan, time since origination, current implied and/or reunderwritten loan-to-collateral value (“LTV”) ratios, loan structure and exit plan. Depending on the loan’s performance against these various factors, loans are rated on a scale from 1 to 5, with loans rated 1 representing loans with the highest credit quality and loans rated 5 representing the loans with the lowest credit quality. The factors evaluated provide general criteria to monitor credit migration in our loan portfolio; as such, a loan’s rating may improve or worsen, depending on new information received.

The criteria set forth below should be used as general guidelines and, therefore, not every loan will have all of the characteristics described in each category below. Loans that are performing according to their underwritten plans generally will not require an allowance for loan loss.

Risk Rating	Risk Characteristics
1	<ul style="list-style-type: none"> • Property performance has surpassed underwritten expectations. • Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix.
2	<ul style="list-style-type: none"> • Property performance is consistent with underwritten expectations and covenants and performance criteria are being met or exceeded. • Occupancy is stabilized, near stabilized or is on track with underwriting.
3	<ul style="list-style-type: none"> • Property performance lags behind underwritten expectations. • Occupancy is not stabilized and the property has some tenancy rollover.
4	<ul style="list-style-type: none"> • Property performance significantly lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. • Occupancy is not stabilized and the property has a large amount of tenancy rollover.
5	<ul style="list-style-type: none"> • Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Expected sale proceeds would not be sufficient to pay off the loan at maturity. • The property has a material vacancy rate and significant rollover of remaining tenants. • An updated appraisal is required upon designation and updated on an as-needed basis.

All CRE loans are evaluated for any credit deterioration by debt asset management and certain finance personnel on at least a quarterly basis.

Whole loans are first individually evaluated for impairment; and to the extent not deemed impaired, a general reserve is established.

The allowance for loan loss is computed as (i) 1.5% of the aggregate face values of loans rated as a 3, plus (ii) 5.0% of the aggregate face values of loans rated as a 4, plus (iii) specific allowances measured and determined on loans individually evaluated, which are loans rated as a 5. While the overall risk rating is generally not the sole factor used in determining whether a loan is impaired, a loan with a higher overall risk rating would tend to have more adverse indicators of impairment, and therefore would be more likely to experience a credit loss.

Our mezzanine loan and preferred equity investments are evaluated individually for impairment.

Credit risk profiles of CRE loans, at amortized cost, and a legacy CRE loan held for sale at the lower of cost or fair value were as follows (in thousands, except amounts in footnotes):

	Rating 1	Rating 2	Rating 3 ⁽¹⁾	Rating 4	Rating 5	Held for Sale ⁽²⁾	Total
At December 31, 2019:							
Whole loans	\$ —	\$ 1,660,274	\$ 96,475	\$ 3,848	\$ —	\$ —	\$ 1,760,597
Mezzanine loan ⁽³⁾	—	4,700	—	—	—	—	4,700
Preferred equity investments ⁽³⁾	—	26,148	—	—	—	—	26,148
Total	\$ —	\$ 1,691,122	\$ 96,475	\$ 3,848	\$ —	\$ —	\$ 1,791,445
At December 31, 2018:							
Whole loans	\$ —	\$ 1,447,206	\$ 77,067	\$ 4,840	\$ —	\$ —	\$ 1,529,113
Mezzanine loan ⁽³⁾	—	4,700	—	—	—	—	4,700
Preferred equity investment ⁽³⁾	—	19,555	—	—	—	—	19,555
Legacy CRE loan held for sale ⁽⁴⁾	—	—	—	—	—	17,000	17,000
Total	\$ —	\$ 1,471,461	\$ 77,067	\$ 4,840	\$ —	\$ 17,000	\$ 1,570,368

(1) Includes one whole loan, with an amortized cost of \$11.5 million that was in maturity default at December 31, 2019 and 2018. The loan is performing with respect to debt service due in accordance with a forbearance agreement at December 31, 2019 and 2018.

(2) Includes one legacy CRE loan that was in default with a total carrying value of \$17.0 million at December 31, 2018.

(3) Our mezzanine loan and preferred equity investments are evaluated individually for impairment.

(4) In November 2019, we foreclosed on the remaining legacy CRE loan held for sale (see Note 23 in “Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements”).

In June 2018, we sold the note and deed of trust of one legacy CRE loan held for sale for \$12.0 million, resulting in a realized gain of \$1.0 million for the year ended December 31, 2018.

In December 2018, one legacy CRE loan paid off and resulted in the receipt of proceeds of \$16.8 million.

At December 31, 2018, we had one legacy CRE loan included in assets held for sale with a total carrying value of \$17.0 million, comprising a total amortized cost basis of \$21.7 million, less accumulated lower of cost or market charges of \$4.7 million. In November 2019, we foreclosed on the loan, and obtained ownership of the underlying property, which remains classified as an asset held for sale on the consolidated balance sheets, recorded at the lower of cost or fair market value. An appraisal received on the property in February 2020 concluded its fair value, less estimated costs to sell, was \$16.5 million, the effect of which was recorded as of December 31, 2019.

During the years ended December 31, 2019 and 2018, we incurred fair value adjustments on the remaining CRE asset held for sale to reduce the carrying value of \$4.7 million and \$7.2 million, respectively, which included protective advances to cover borrower operating losses of \$1.2 million and \$1.7 million, respectively, recorded in fair value adjustments on financial assets held for sale on the consolidated statements of operations. The loss during the year ended December 31, 2019 was primarily attributable to two fair value charges: a \$2.2 million fair value charge in connection with the February 2020 appraisal and a \$1.3 million fair value charge in connection with the receipt of three June 2019 broker’s opinions of value, the average of which were taken into account equally along with an appraisal received in February 2019.

At December 31, 2019 and 2018, we had one mezzanine loan included in assets held for sale that had no fair value at December 31, 2019 and 2018.

At December 31, 2019 and 2018, we had one legacy CRE loan, classified as a CRE loan on the consolidated balance sheets, with an amortized cost of \$11.5 million that was in maturity default. The loan is performing with respect to debt service due in accordance with a forbearance agreement.

Except as previously discussed, all of our CRE loans were current with respect to contractual principal and interest at December 31, 2019.

During the year ended December 31, 2019, we recorded an increase in the reserve of \$59,000, which was primarily attributable to two loans that migrated from a risk rating of 2 to a risk rating of 3, in which performance lagged behind underwritten expectations, and partially offset by \$18.7 million of loans risk rated as a 3 that repaid and \$2.5 million of loan paydowns on one loan risk rated as a 3 and one loan risk rated as a 4. During the year ended December 31, 2018, we recorded a decrease in the reserve of \$3.9 million, which was primarily attributable to one \$7.0 million loan risk rated as a 5 that repaid. Additionally, \$42.6 million of loans risk rated as a 3 repaid and three loans migrated from a risk rating of 3 to a risk rating of 2, due to improved performance relative to underwritten expectations.

Loan Portfolios Aging Analysis

The following table presents the CRE loan portfolio aging analysis as of the dates indicated for CRE loans, at amortized cost and a legacy CRE loan held for sale at the lower of cost or fair value (in thousands, except amounts in footnotes):

	30-59 Days	60-89 Days	Greater than 90 Days ⁽¹⁾⁽²⁾	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing ⁽¹⁾
At December 31, 2019:							
Whole loans	\$ —	\$ —	\$ 11,503	\$ 11,503	\$ 1,749,094	\$ 1,760,597	\$ 11,503
Mezzanine loan	—	—	—	—	4,700	4,700	—
Preferred equity investments	—	—	—	—	26,148	26,148	—
Total	\$ —	\$ —	\$ 11,503	\$ 11,503	\$ 1,779,942	\$ 1,791,445	\$ 11,503
At December 31, 2018:							
Whole loans	\$ —	\$ —	\$ 11,516	\$ 11,516	\$ 1,517,597	\$ 1,529,113	\$ 11,516
Mezzanine loan	—	—	—	—	4,700	4,700	—
Preferred equity investment	—	—	—	—	19,555	19,555	—
Legacy CRE loan held for sale ⁽³⁾	—	—	17,000	17,000	—	17,000	—
Total	\$ —	\$ —	\$ 28,516	\$ 28,516	\$ 1,541,852	\$ 1,570,368	\$ 11,516

(1) Includes one whole loan, with an amortized cost of \$11.5 million, that was in maturity default at December 31, 2019 and 2018. The loan is performing with respect to debt service due in accordance with a forbearance agreement at December 31, 2019 and 2018. During the years ended December 31, 2019, 2018 and 2017, we recognized interest income of \$747,000, \$621,000 and \$610,000, respectively, on this whole loan.

(2) Includes one legacy CRE loan that was in default with a total carrying value of \$17.0 million at December 31, 2018.

(3) In November 2019, we foreclosed on the remaining legacy CRE loan held for sale (see Note 23 in “Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements”).

Impaired Loans

We did not have any impaired loans at December 31, 2019 and 2018.

Troubled-Debt Restructurings (“TDRs”)

There were no TDRs for the years ended December 31, 2019 and 2018.

Restricted Cash

At December 31, 2019, we had restricted cash of \$14.5 million, which consisted of \$13.9 million of restricted cash held as margin, \$532,000 held within three of our five consolidated securitizations and \$22,000 held in various reserve accounts. At December 31, 2018, we had restricted cash of \$12.7 million, which consisted of \$6.2 million of restricted cash within four of our six consolidated securitizations, \$6.4 million held as margin and \$21,000 held in various reserve accounts. The increase of \$1.8 million was primarily attributable to initial margin requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 on interest rate swaps, offset by paydowns and interest payments on the RCC 2017-CRE5 notes payable.

Accrued Interest Receivable

The following table summarizes our accrued interest receivable at December 31, 2019 and 2018 (in thousands):

	December 31,		Net Change
	2019	2018	
Accrued interest receivable from loans	\$ 6,746	\$ 6,974	\$ (228)
Accrued interest receivable from securities	1,133	1,156	(23)
Accrued interest receivable from escrow, sweep and reserve accounts	163	68	95
Total	<u>\$ 8,042</u>	<u>\$ 8,198</u>	<u>\$ (156)</u>

The \$228,000 decrease in accrued interest receivable from loans was primarily attributable to decreases in our spreads and one-month LIBOR at December 31, 2019 as compared to December 31, 2018.

Other Assets

The following table summarizes our other assets at December 31, 2019 and 2018 (in thousands):

	December 31,		Net Change
	2019	2018	
Tax receivables and prepaid taxes	\$ 2,250	\$ 3,219	\$ (969)
Other prepaid expenses	835	361	474
Other receivables	116	261	(145)
Fixed assets - non real estate	89	108	(19)
Direct financing leases	—	66	(66)
Total	<u>\$ 3,290</u>	<u>\$ 4,015</u>	<u>\$ (725)</u>

The \$725,000 decrease in other assets was primarily attributable to a \$969,000 decrease of tax receivables and prepaid taxes due to tax refunds of \$909,000 received during the year ended December 31, 2019. The decrease in other assets was partially offset by a \$474,000 increase in other prepaid expenses primarily attributable to August 2019 expenses incurred on a legacy CRE loan held for sale and the timing of payments for prepaid operating expenses.

Deferred Tax Assets

At December 31, 2019 and 2018, our net deferred tax asset was zero, resulting from a full valuation allowance of \$9.9 million and \$15.3 million, respectively, on our gross deferred tax asset as we believed it was more likely than not that some or all of the deferred tax assets would not be realized. We will continue to evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing forecasted taxable income using both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carry back years (if permitted) and the availability of tax planning strategies.

Core and Non-Core Asset Classes

Our investment strategy targets the following core asset class:

<u>CRE/Core Asset Class</u>	<u>Principal Investments</u>
<i>Commercial real estate-related assets</i>	<ul style="list-style-type: none">• Floating and fixed-rate first mortgage loans, which we refer to as whole loans;• First priority interests in first mortgage loans, which we refer to as A-notes;• Subordinated interests in first mortgage loans, which we refer to as B-notes;• Mezzanine debt related to CRE that is senior to the borrower's equity position but subordinated to other third-party debt;• Preferred equity investments related to CRE that are subordinate to first mortgage loans and are not collateralized by the property underlying the investment;• CMBS; and• CRE equity investments.

As we discussed in the "Overview" section, in November 2016, we received approval from our Board to execute the Plan to focus our strategy on CRE debt investments. The Plan contemplated disposing of certain legacy CRE debt investments, exiting underperforming non-core asset classes and establishing a dividend policy based on sustainable earnings. Legacy CRE loans are loans underwritten prior to 2010. The non-core asset classes in which we had historically invested are described below:

<u>Non-Core Asset Classes</u>	<u>Principal Investments</u>
<i>Residential real estate-related assets</i>	<ul style="list-style-type: none">• Residential mortgage loans; and• Residential mortgage-backed securities, which comprise our available-for-sale portfolio.
<i>Commercial finance assets</i>	<ul style="list-style-type: none">• Middle market secured corporate loans and preferred equity investments;• Asset-backed securities, backed by senior secured corporate loans;• Debt tranches of collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs"), and sometimes, collectively, as CDOs;• Structured note investments, which comprise our trading securities portfolio;• Syndicated corporate loans; and• Preferred equity investment in a commercial leasing enterprise that originates and holds small- and middle-ticket commercial direct financing leases and notes.

Assets and Liabilities Held for Sale

The assets and liabilities of business segments classified as discontinued operations and other assets and liabilities classified as held for sale are reported separately in the accompanying consolidated financial statements and are summarized as follows at December 31, 2019 and 2018 (in thousands):

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
ASSETS		
Loans and other assets held for sale	\$ —	\$ 17,645
Property and other assets held for sale	16,766	—
Total assets held for sale	<u>\$ 16,766</u>	<u>\$ 17,645</u>
LIABILITIES		
Accounts payable and other liabilities	\$ 1,746	\$ 1,820
Total liabilities held for sale	<u>\$ 1,746</u>	<u>\$ 1,820</u>

Hedging Instruments

A significant market risk to us is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of our interest-earning assets and our ability to realize gains from the sale of these assets. A decline in the value of our interest-earning assets pledged as collateral for borrowings could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

We seek to manage the extent to which net income changes as a fluctuation of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. We seek to mitigate the potential impact on net income (loss) of adverse fluctuations in interest rates incurred on our borrowings by entering into hedging agreements.

We classify our interest rate hedges as cash flow hedges, which are hedges that eliminate the risk of changes in the cash flows of a financial asset or liability. We record changes in fair value of derivatives designated and effective as cash flow hedges in accumulated other comprehensive income (loss), and record changes in fair value of derivatives designated and ineffective as cash flow hedges in earnings.

The following tables present the fair value of our derivative financial instruments as well as their classification on our consolidated balance sheets and on the consolidated statements of operations for the years presented:

Fair Value of Derivative Instruments (in thousands)

At December 31, 2019	Asset Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging ⁽¹⁾	\$ 2,630	Derivatives, at fair value	\$ 30
		Liability Derivatives	
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging ⁽¹⁾	\$ 87,551	Derivatives, at fair value	\$ 4,558
Interest rate swap contracts, hedging	\$ 90,181	Accumulated other comprehensive income (loss)	\$ (3,999)
At December 31, 2018	Asset Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging ⁽¹⁾	\$ 31,725	Derivatives, at fair value	\$ 985
		Liability Derivatives	
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging ⁽¹⁾	\$ 49,326	Derivatives, at fair value	\$ 1,043
Interest rate swap contracts, hedging	\$ 81,051	Accumulated other comprehensive income (loss)	\$ 563

(1) Interest rate swap contracts are accounted for as cash flow hedges.

The Effect of Derivative Instruments on the Consolidated Statements of Operations (in thousands)

Year Ended December 31, 2019	Derivatives	
	Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) ⁽¹⁾
Interest rate swap contracts, hedging	Interest expense	\$ (138)
Year Ended December 31, 2018	Derivatives	
	Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) ⁽¹⁾
Interest rate swap contracts, hedging	Interest expense	\$ (169)

(1) Negative values indicate a decrease to the associated consolidated statements of operations line items.

At December 31, 2019, we had 19 swap contracts outstanding in order to hedge against adverse rate movements on our one-month LIBOR borrowings. Our interest rate swap contracts at December 31, 2019 were as follows (dollars in thousands):

	Benchmark Rate	Notional Value	Strike Rate	Effective Date	Maturity Date	Fair Value
Interest rate swap	One-month LIBOR	\$ 3,010	2.02%	6/18/2017	1/18/2026	\$ (69)
Interest rate swap	One-month LIBOR	3,640	2.15%	8/18/2017	3/18/2027	(119)
Interest rate swap	One-month LIBOR	4,025	2.09%	8/18/2017	10/18/2026	(115)
Interest rate swap	One-month LIBOR	13,550	2.09%	10/18/2017	9/18/2027	(404)
Interest rate swap	One-month LIBOR	7,500	2.20%	10/18/2017	9/18/2027	(282)
Interest rate swap	One-month LIBOR	2,820	2.77%	3/18/2018	3/18/2028	(235)
Interest rate swap	One-month LIBOR	2,571	2.86%	5/18/2018	3/18/2028	(232)
Interest rate swap	One-month LIBOR	3,720	2.86%	5/18/2018	11/18/2025	(263)
Interest rate swap	One-month LIBOR	7,325	2.80%	7/18/2018	1/18/2026	(500)
Interest rate swap	One-month LIBOR	4,300	2.80%	7/18/2018	1/18/2026	(293)
Interest rate swap	One-month LIBOR	2,300	2.85%	7/18/2018	2/18/2027	(186)
Interest rate swap	One-month LIBOR	4,020	2.76%	7/18/2018	7/18/2026	(282)
Interest rate swap	One-month LIBOR	4,020	2.76%	7/18/2018	7/18/2026	(283)
Interest rate swap	One-month LIBOR	4,420	2.89%	8/18/2018	7/18/2028	(423)
Interest rate swap	One-month LIBOR	7,330	2.85%	8/18/2018	12/18/2026	(583)
Interest rate swap	One-month LIBOR	6,500	2.72%	9/18/2018	7/18/2022	(194)
Interest rate swap	One-month LIBOR	4,770	2.17%	5/18/2019	7/18/2022	(76)
Interest rate swap	One-month LIBOR	1,730	1.87%	7/18/2019	6/18/2029	(19)
Interest rate swap	One-month LIBOR	2,630	1.49%	11/18/2019	11/18/2026	30
Total		<u>\$ 90,181</u>				<u>\$ (4,528)</u>

We had 16 interest rate swap contracts at December 31, 2018.

Repurchase and Credit Facilities

Borrowings under our repurchase agreements were guaranteed by us or one of our subsidiaries. The following table sets forth certain information with respect to our repurchase agreements (dollars in thousands, except amounts in footnotes):

	December 31, 2019				December 31, 2018			
	Outstanding Borrowings ⁽¹⁾	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate	Outstanding Borrowings ⁽¹⁾	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate
CRE - Term Repurchase Facilities								
Wells Fargo Bank, N.A. ⁽²⁾	\$ 225,217	\$ 291,903	28	3.70%	\$ 154,478	\$ 226,530	13	4.33%
Morgan Stanley Bank, N.A. ⁽³⁾	—	—	—	—%	37,113	62,457	3	5.09%
Barclays Bank PLC ⁽⁴⁾	111,881	145,035	14	3.99%	240,416	308,389	11	4.51%
JPMorgan Chase Bank, N.A. ⁽⁵⁾	207,807	268,283	17	3.56%	75,440	98,839	5	4.30%
Trust Certificates - Term Repurchase Facilities								
RSO Repo SPE Trust 2017 ⁽⁶⁾	—	—	—	—%	47,172	118,780	2	6.41%
CMBS - Short-Term Repurchase Agreements								
Deutsche Bank Securities Inc.	37,141	57,331	6	3.13%	7,305	9,158	5	3.98%
JP Morgan Securities LLC	33,703	42,075	13	2.87%	42,040	73,066	13	3.57%
Barclays Capital Inc.	87,643	112,939	7	2.82%	—	—	—	—%
RBC Capital Markets, LLC	34,829	47,081	5	2.96%	246,476	313,644	33	3.64%
RBC (Barbados) Trading Bank Corporation	181,584	224,972	30	2.82%	—	—	—	—%
Total	<u>\$ 919,805</u>	<u>\$ 1,189,619</u>			<u>\$ 850,440</u>	<u>\$ 1,210,863</u>		

(1) Outstanding borrowings includes accrued interest payable.

(2) Includes \$607,000 and \$1.6 million of deferred debt issuance costs at December 31, 2019 and 2018, respectively.

(3) Includes \$167,000 of deferred debt issuance costs at December 31, 2018. There were no deferred debt issuance costs at December 31, 2019.

(4) Includes \$817,000 and \$1.5 million of deferred debt issuance costs at December 31, 2019 and 2018, respectively.

(5) Includes \$1.3 million and \$2.0 million of deferred debt issuance costs at December 31, 2019 and 2018, respectively.

(6) Includes \$204,000 of deferred debt issuance costs at December 31, 2018. There were no deferred debt issuance costs at December 31, 2019.

We were in compliance with all covenants in the respective agreements at December 31, 2019 and 2018.

CRE - Term Repurchase Facilities

In February 2012, a wholly-owned subsidiary entered into a master repurchase and securities agreement with Wells Fargo Bank, N.A. to finance the origination of CRE loans. In July 2018, the subsidiary entered into an amended and restated master repurchase agreement (the “2018 Facility”), in exchange for an extension fee and other reasonable costs, that maintained the \$400.0 million maximum facility amount and extended the term of the facility to July 2020 with three one-year extension options exercisable at our discretion. The 2018 Facility charges interest rates of one-month LIBOR plus spreads ranging from 1.75% to 2.50%.

In September 2015, a wholly-owned subsidiary entered into a master repurchase and securities agreement (the “Morgan Stanley Facility”) with Morgan Stanley Bank, N.A. to finance the origination of CRE loans. Our subsidiary entered into three amendments to the Morgan Stanley Facility, the third of which was entered into in September 2019, which ultimately reduced its maximum capacity to \$37.2 million and extended the maturity date through October 2019, at which time it was repaid in full.

In April 2018, an indirect wholly-owned subsidiary entered into a master repurchase agreement (the “Barclays Facility”) with Barclays Bank PLC to finance our core CRE lending business. The Barclays Facility has a maximum facility amount of \$250.0 million, charges interest of one-month LIBOR plus a spread between 2.00% and 2.50% and matures in April 2021, subject to certain one-year extension options in accordance with the facility’s terms.

In October 2018, an indirect wholly-owned subsidiary entered into a master repurchase agreement (the “JPMorgan Chase Facility”) with JPMorgan Chase Bank, N.A. to finance the origination of CRE loans. The JPMorgan Chase Facility has a maximum facility amount of \$250.0 million, charges interest of one-month LIBOR plus a spread between 2.00% and 2.25% and matures in October 2021, subject to two one-year extension options in accordance with the facility’s terms.

Trust Certificates - Term Repurchase Facility

In November 2015, a wholly-owned subsidiary entered into a repurchase and securities agreement (the “2015 Term Repurchase Trust Facility”) with RSO Repo SPE Trust 2015, a structure that provides financing under a structured sale of trust certificates to qualified institutional buyers through an offering led by Wells Fargo Securities, LLC (“Wells Fargo Securities”). In July 2018, the 2015 Term Repurchase Trust Facility was paid off as a result of the exercise of the optional redemption of RCC 2015-CRE4.

In September 2017, a wholly-owned subsidiary entered into a repurchase and securities agreement (the “2017 Term Repurchase Trust Facility”) with RSO Repo SPE Trust 2017, a structure that provides financing under a structured sale of trust certificates to qualified institutional buyers through an offering led by Wells Fargo Securities. In July 2019, we paid off the outstanding balance of the 2017 Term Repurchase Trust Facility in connection with the redemption of RCC 2017-CRE5.

CMBS - Short-Term Repurchase Agreements

In March 2005, a subsidiary entered into a master repurchase agreement with Deutsche Bank Securities Inc. to finance the purchase of CMBS and the origination of CRE loans. There is no stated maximum amount or maturity date of the facility and the repurchase agreement includes monthly resets of interest rates.

In February 2012, a subsidiary entered into a master repurchase and securities agreement with Wells Fargo Securities to finance the purchase of CMBS. There is no stated maximum amount or maturity date of the facility and the repurchase agreement includes monthly resets of interest rates.

In November 2012, a subsidiary entered into a master repurchase and securities agreement with JP Morgan Securities LLC to finance the purchase of CMBS. There is no stated maximum amount or maturity date of the facility and the repurchase agreement includes monthly resets of interest rates.

In February 2013, a subsidiary entered into a master repurchase agreement (the “Barclays Capital Facility”) with Barclays Capital Inc. to finance the purchase of CMBS. In August 2019, we entered into an amendment to the Barclays Capital Facility that updated certain reporting requirements.

In August 2017, a subsidiary entered into a master repurchase and securities agreement with RBC Capital Markets, LLC to finance the purchase of CMBS. There is no stated maximum amount or maturity date of the facility and the repurchase agreement includes monthly resets of interest rates.

In October 2019, a subsidiary entered into a master repurchase and securities agreement with RBC (Barbados) Trading Bank Corporation to finance the purchase of CMBS. There is no stated maximum amount or maturity date of the facility and the repurchase agreement includes monthly resets of interest rates.

CMBS - Term Repurchase Facilities

In February 2011, two of our wholly-owned subsidiaries entered into a master repurchase and securities contract (the “2011 Facility”) to be used as a term repurchase facility to finance the purchase of highly-rated CMBS. In March 2018, we paid off the 2011 Facility and allowed it to mature on March 31, 2018.

Securizations

RCC 2015-CRE3

In February 2015, we closed RCC 2015-CRE3, a \$346.2 million CRE securitization transaction that provided financing for transitional CRE loans. In August 2018, our subsidiary exercised the optional redemption feature of RCC 2015-CRE3, and all of the outstanding senior notes were paid off from the payoff proceeds of certain of the securitization’s assets.

RCC 2015-CRE4

In August 2015, we closed RCC 2015-CRE4, a \$312.9 million CRE securitization transaction that provided financing for transitional CRE loans. In July 2018, our subsidiary exercised the optional redemption feature of RCC 2015-CRE4, and all of the outstanding senior notes were paid off from the payoff proceeds of certain of the securitization’s assets.

RCC 2017-CRE5

In July 2017, we closed RCC 2017-CRE5, a \$376.7 million CRE securitization transaction that provided financing for transitional CRE loans. In May 2019, we paid off all of the outstanding third-party owned senior notes from the payoff proceeds of certain of the securitization’s assets. In July 2019, we exercised the optional redemption feature of the securitization.

XAN 2018-RSO6

In June 2018, we closed XAN 2018-RSO6, a \$514.2 million CRE securitization transaction that provided financing for transitional CRE loans. XAN 2018-RSO6 issued a total of approximately \$405.0 million of senior notes at par to unrelated investors. A subsidiary of RCC Real Estate, Inc. (“RCC RE”) purchased 16.7% of the Class D senior notes and 100% of the Class E and Class F notes. In addition, a subsidiary of RCC RE purchased an equity interest representing 100% of the outstanding preference shares. At December 31, 2019, the notes issued to third party investors had a weighted average interest rate of one-month LIBOR plus 1.43%. All of the notes issued mature in June 2035, although we have the right to call the notes any time after July 2020 until maturity.

XAN 2019-RSO7

In April 2019, we closed XAN 2019-RSO7, a \$687.2 million CRE securitization transaction that provided financing for transitional CRE loans. XAN 2019-RSO7 issued a total of approximately \$585.8 million of senior notes at par to unrelated investors. A subsidiary of RCC RE purchased 20.4% of the Class D senior notes and 100% of the Class E and Class F notes. In addition, a subsidiary of RCC RE purchased an equity interest representing 100% of the outstanding preference shares. At December 31, 2019, the notes issued to third party investors had a weighted average interest rate of one-month LIBOR plus 1.30%. All of the notes issued mature in April 2036, although we have the right to call the notes any time after May 2021 until maturity.

At December 31, 2019, we retain equity in the following securitizations (in thousands):

	Closing Date	Maturity Date	End of Designated Principal Reinvestment Period ⁽¹⁾	Total Note Paydowns from Closing Date through December 31, 2019
XAN 2018-RSO6	June 2018	June 2035	December 2020	\$ 220,334
XAN 2019-RSO7	April 2019	April 2036	April 2022	\$ 132

(1) The designated principal reinvestment period is the period in which principal repayments can be utilized to purchase loans held outside of the respective securitization that represent the funded commitments of existing collateral in the respective securitization that were not funded as of the date the respective securitization was closed.

Corporate Debt

4.50% Convertible Senior Notes, 6.00% Convertible Senior Notes and 8.00% Convertible Senior Notes

We issued \$100.0 million aggregate principal of our 8.00% Convertible Senior Notes and \$143.8 million aggregate principal of our 4.50% convertible senior notes due 2022 (“4.50% Convertible Senior Notes”) in January 2015 and August 2017, respectively (together, the “Convertible Senior Notes”). Additionally, we issued \$115.0 million aggregate principal of our 6.00% convertible senior notes due 2018 (“6.00% Convertible Senior Notes”) in October 2013. In conjunction with the issuance of our 4.50% Convertible Senior Notes, we extinguished \$44.5 million and \$78.8 million aggregate principal of our 6.00% Convertible Senior Notes and 8.00% Convertible Senior Notes, respectively. In December 2018, the 6.00% Convertible Senior Notes were paid off upon maturity.

The following table summarizes the Convertible Senior Notes at December 31, 2019 (dollars in thousands, except the conversion prices and amounts in the footnotes):

	Principal Outstanding	Borrowing Rate	Effective Rate ⁽¹⁾	Conversion Rate ⁽²⁾⁽³⁾	Conversion Price ⁽³⁾	Maturity Date
4.50% Convertible Senior Notes	\$ 143,750	4.50%	7.43%	83.1676	\$ 12.02	August 15, 2022
8.00% Convertible Senior Notes	\$ 21,182	8.00%	9.13%	46.8604	\$ 21.34	January 15, 2020

(1) Includes the amortization of the market discounts and deferred debt issuance costs, if any, for the Convertible Senior Notes recorded in interest expense on the consolidated statements of operations.

(2) Represents the number of shares of common stock per \$1,000 principal amount of the Convertible Senior Notes’ principal outstanding, subject to adjustment as provided in the Second Supplemental Indenture (the “8.00% Convertible Senior Notes Indenture”) and the Third Supplemental Indenture (the “4.50% Convertible Senior Notes Indenture”).

(3) The conversion rate and conversion price of the 4.50% Convertible Senior Notes at December 31, 2019 are adjusted to reflect quarterly cash dividends in excess of a \$0.10 dividend threshold, as defined in the 4.50% Convertible Senior Notes Indenture. The split-adjusted dividend threshold of \$0.64, as defined in the 8.00% Convertible Senior Notes Indenture, was not exceeded for the years ended December 31, 2019 and 2018.

In January 2020, the 8.00% Convertible Senior Notes were paid off upon maturity.

The 4.50% Convertible Senior Notes are convertible at the option of the holder at any time up until one business day before the maturity date and may be settled in cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. We may not redeem the 4.50% Convertible Senior Notes prior to maturity. The closing price of our common stock was \$11.81 on December 31, 2019, which did not exceed the conversion price of our 4.50% Convertible Senior Notes at December 31, 2019.

Unsecured Junior Subordinated Debentures

During 2006, we formed RCT I and RCT II for the sole purpose of issuing and selling capital securities representing preferred beneficial interests. RCT I and RCT II are not consolidated into our consolidated financial statements because we are not deemed to be the primary beneficiary of these entities. In connection with the issuance and sale of the capital securities, we issued junior subordinated debentures to RCT I and RCT II of \$25.8 million each, representing our maximum exposure to loss. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II were included in borrowings and were amortized into interest expense on the consolidated statements of operations using the effective yield method over a ten year period.

There were no unamortized debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II outstanding at December 31, 2019 and 2018. The interest rates for RCT I and RCT II, at December 31, 2019, were 5.91% and 5.89%, respectively. The interest rates for RCT I and RCT II, at December 31, 2018, were 6.75% and 6.47%, respectively.

The rights of holders of common securities of RCT I and RCT II are subordinate to the rights of the holders of capital securities only in the event of a default; otherwise, the common securities' economic and voting rights are pari passu with the capital securities. The capital and common securities of RCT I and RCT II are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures held by each. Unless earlier dissolved, RCT I will dissolve in May 2041 and RCT II will dissolve in September 2041. The junior subordinated debentures are the sole assets of RCT I and RCT II, which mature in June 2036 and October 2036, respectively, and may currently be called at par.

Stockholders' Equity

Total stockholders' equity at December 31, 2019 was \$556.4 million and gave effect to \$4.0 million of net unrealized losses on our cash flow hedges and \$5.8 million of net unrealized gains on our available-for-sale portfolio, shown as a component of accumulated other comprehensive income (loss). Stockholders' equity at December 31, 2018 was \$553.8 million and gave effect to \$563,000 of unrealized gains on our cash flow hedges and \$3.6 million of net unrealized losses on our available-for-sale portfolio, shown as a component of accumulated other comprehensive income (loss). The increase in stockholders' equity during the year ended December 31, 2019 was primarily attributable to the \$4.9 million decrease in net unrealized losses in connection with mark-to-mark adjustments on our CMBS and derivative contracts.

Balance Sheet - Book Value Reconciliation

The following table rolls forward our common stock book value for the three months and year ended December 31, 2019 and reconciles our common stock book value to our economic book value (a non-GAAP measure) at December 31, 2019 (dollars in thousands, except amounts in footnotes):

	Three Months Ended December 31, 2019		Year Ended December 31, 2019	
	Total Amount	Per Share Amount	Total Amount	Per Share Amount
Common stock book value at beginning of period ⁽¹⁾	\$ 444,070	\$ 14.12	\$ 437,863	\$ 14.02
Net income allocable to common shares	3,798	0.12	25,616	0.81
Change in other comprehensive income:				
Available-for-sale securities	(1,139)	(0.04)	9,440	0.30
Derivatives	1,804	0.06	(4,562)	(0.15)
Common stock dividends	(8,651)	(0.28)	(29,875)	(0.94)
Common stock dividends on unvested shares	(116)	—	(404)	(0.01)
Accretion (dilution) from additional shares outstanding at December 31, 2019 ⁽²⁾	676	0.02	2,364	(0.03)
Total net (decrease) increase	(3,628)	(0.12)	2,579	(0.02)
Common stock book value at end of period ⁽¹⁾⁽³⁾	\$ 440,442	\$ 14.00	440,442	14.00
Reconciling items in arriving at economic book value at December 31, 2019:				
Non-cash convertible senior notes' unamortized discounts:				
4.50% Convertible Senior Notes	(8,133)	(0.26)	(8,133)	(0.26)
8.00% Convertible Senior Notes	(6)	—	(6)	—
Series C Preferred Stock redemption value in excess of carrying value	(4,045)	(0.13)	(4,045)	(0.13)
Economic book value at December 31, 2019	\$ 428,258	\$ 13.61	\$ 428,258	\$ 13.61

(1) Per share calculations exclude unvested restricted stock, as disclosed on the consolidated balance sheet, of 420,962, 424,164 and 422,671 shares at December 31, 2019, September 30, 2019 and December 31, 2018, respectively. The denominator for the calculation is 31,459,632, 31,446,738 and 31,234,828 at December 31, 2019, September 30, 2019, and December 31, 2018, respectively.

(2) Per share amount calculation includes the impact of 12,894 and 224,804 additional shares for the three months and year ended December 31, 2019.

(3) Common stock book value is calculated as total stockholders' equity of \$556.4 million less preferred stock equity of \$116.0 million at December 31, 2019.

Management Agreement Equity

Our base management fee, as defined in the Management Agreement, is equal to (i) 1/12th of the amount of our equity multiplied by (ii) 1.50%.

The following table summarizes the calculation of equity, as defined in the Management Agreement (in thousands):

	Amount
At December 31, 2019:	
Proceeds from capital stock issuances, net ⁽¹⁾	\$ 1,219,936
Retained earnings, net ⁽²⁾	(451,926)
Payments for repurchases of capital stock, net	(207,011)
Total	\$ 560,999

(1) Deducts underwriting discounts and commissions and other expenses and costs relating to such issuances.

(2) Excludes non-cash equity compensation expense incurred to date.

Core Earnings

Core Earnings is a non-GAAP financial measure that we use to evaluate our operating performance.

Core Earnings exclude the effects of certain transactions and adjustments in accordance with GAAP that we believe are not necessarily indicative of our current CRE loan portfolio and other CRE-related investments and operations. Core Earnings exclude income (loss) from all non-core assets such as commercial finance, middle market lending, residential mortgage lending, certain legacy CRE assets and other non-CRE assets designated as assets held for sale at the initial measurement date of December 31, 2016.

Core Earnings, for reporting purposes, is defined as GAAP net income (loss) allocable to common shares, excluding (i) non-cash equity compensation expense, (ii) unrealized gains and losses, (iii) non-cash provisions for loan losses, (iv) non-cash impairments on securities, (v) non-cash amortization of discounts or premiums associated with borrowings, (vi) net income or loss from a limited partnership interest owned at the initial measurement date, (vii) net income or loss from non-core assets, ⁽¹⁾⁽²⁾ (viii) real estate depreciation and amortization, (ix) foreign currency gains or losses and (x) income or loss from discontinued operations. Core Earnings may also be adjusted periodically to exclude certain one-time events pursuant to changes in GAAP and certain non-cash items.

Although pursuant to the Management Agreement we calculate incentive compensation using Core Earnings that exclude incentive compensation payable to our Manager, we include incentive compensation payable to our Manager in calculating Core Earnings for reporting purposes.

Core Earnings allocable to common shares, adjusted (“Core Earnings Adjusted”) is a non-GAAP financial measure used to evaluate our operating performance. Core Earnings Adjusted exclude certain non-recurring items and the results of certain transactions that are not indicative of our ongoing operating performance.

Core Earnings and Core Earnings Adjusted do not represent net income or cash generated from operating activities and should not be considered as alternatives to GAAP net income or as measures of liquidity under GAAP. Our methodology for calculating Core Earnings and Core Earnings Adjusted may differ from methodologies used by other companies to calculate similar supplemental performance measures, and, accordingly, our reported Core Earnings and Core Earnings Adjusted may not be comparable to similar performance measures used by other companies.

The following table provides a reconciliation from GAAP net income allocable to common shares to Core Earnings allocable to common shares and Core Earnings allocable to common shares, adjusted for the periods presented (dollars in thousands, except amounts in the footnotes):

	Years Ended December 31,			
	2019	Per Share Data	2018	Per Share Data
Net income allocable to common shares - GAAP	\$ 25,616	0.81	\$ 6,973	0.22
Adjustment for realized gains on CRE assets ⁽³⁾	—	—	(520)	(0.02)
Net income allocable to common shares - GAAP, adjusted	<u>25,616</u>	<u>0.81</u>	<u>6,453</u>	<u>0.20</u>
Reconciling items from continuing operations:				
Non-cash equity compensation expense	2,212	0.07	2,717	0.09
Non-cash provision for (recovery of) CRE loan losses	58	—	(1,427)	(0.05)
Litigation settlement expense ⁽⁴⁾	—	—	(2,167)	(0.07)
Non-cash amortization of discounts or premiums associated with borrowings	2,842	0.09	3,169	0.10
Income tax benefit from non-core investments ⁽¹⁾⁽²⁾	—	—	(343)	(0.01)
Net realized gain on non-core assets ⁽¹⁾⁽²⁾	(123)	—	(1,925)	(0.06)
Net income from non-core assets ⁽²⁾	(871)	(0.03)	(12)	—
Reconciling items from discontinued operations and CRE loans:				
Net interest income on legacy CRE loans	(747)	(0.02)	(1,856)	(0.06)
Realized gain on liquidation of CRE loans	—	—	(1,000)	(0.03)
Operating expenses on legacy CRE loans	—	—	187	—
Fair value adjustments on legacy CRE loans	4,725	0.15	7,224	0.23
Net loss from other non-CRE investments held for sale	—	—	508	0.02
Loss (income) from discontinued operations, net of taxes	251	—	(121)	—
Core Earnings before realized loss on CRE assets	<u>33,963</u>	<u>1.07</u>	<u>11,407</u>	<u>0.36</u>
Adjustment for realized loss on CRE loan	—	—	(2,332)	(0.07)
Adjustment for realized gain on CRE-related investment	—	—	352	0.01
Core Earnings allocable to common shares	<u>\$ 33,963</u>	<u>\$ 1.07</u>	<u>\$ 9,427</u>	<u>\$ 0.30</u>
Reconciling items in arriving at Core Earnings allocable to common shares, adjusted:				
Realized loss on sale of a previously impaired CRE loan	—	—	2,332	0.07
Loss on redemption of Series B Preferred Stock	—	—	7,482	0.24
Litigation settlement expense	—	—	2,167	0.07
Impairment on legacy CMBS investment	—	—	934	0.03
Core Earnings allocable to common shares, adjusted ⁽⁵⁾⁽⁶⁾⁽⁷⁾	<u>\$ 33,963</u>	<u>\$ 1.07</u>	<u>\$ 22,342</u>	<u>\$ 0.71</u>
Weighted average common shares - diluted	31,670		31,383	
Core Earnings per common share - diluted	<u>\$ 1.07</u>		<u>\$ 0.30</u>	
Core Earnings per common share, adjusted - diluted ⁽⁵⁾⁽⁶⁾⁽⁷⁾	<u>\$ 1.07</u>		<u>\$ 0.71</u>	

(1) Income tax expense (benefit) from non-core investments and net realized gain (loss) on non-core assets are components of net income or loss from non-core assets.

(2) Non-core assets are investments and securities owned by us at the initial measurement date in (i) commercial finance, (ii) middle market lending, (iii) residential mortgage lending, (iv) legacy CRE assets and (v) other non-CRE assets included in assets held for sale.

(3) Includes a realized gain of \$352,000, or \$0.01 per common share-diluted, in connection with the sale of CMBS and a realized recovery of CRE loan loss provision of \$168,000, or \$0.01 per common share-diluted, in connection with the sale of a previously impaired, 2013 vintage CRE loan for the year ended December 31, 2018.

(4) Reflects the payment of the settlement of a securities litigation, previously accrued in 2017, for the year ended December 31, 2018.

(5) Core Earnings, adjusted exclude a realized loss of \$(2.3) million, or \$(0.07) per common share-diluted, for the year ended December 31, 2018 in connection with the sale of a previously impaired, 2013 vintage CRE loan.

(6) Core Earnings, adjusted exclude a non-recurring charge of \$(7.5) million, or \$(0.24) per common share-diluted for the year ended December 31, 2018 in connection with the redemption of our remaining 8.25% Series B Cumulative Redeemable Preferred Stock.

(7) Core Earnings, adjusted exclude an impairment charge of \$(934,000), or \$(0.03) per common share-diluted, for the year ended December 31, 2018 in connection with a legacy CMBS investment.

Core Earnings in accordance with the Management Agreement, which excludes incentive compensation payable, was \$7.3 million, or \$0.23 per common share outstanding, for the three months ended December 31, 2019. There was no incentive compensation payable for the three months ended December 31, 2019.

Incentive Compensation Hurdle

In accordance with the Management Agreement, incentive compensation is earned by our Manager when our Core Earnings per common share (as defined in the Management Agreement) for such quarter exceeds an amount equal to: (1) the weighted average of (a) book value (as defined in the Management Agreement) as of the end of such quarter divided by 30,881,351 shares and (b) the price per share (including the conversion price, if applicable) paid for common shares in each offering (or issuance, upon the conversion of convertible securities) by us subsequent to September 30, 2017, in each case at the time of issuance, multiplied by (2) the greater of (a) 1.75% and (b) 0.4375% plus one-fourth of the ten year treasury rate, as defined in the Management Agreement, for such quarter (the “Incentive Compensation Hurdle”).

For the three months ended December 31, 2019, our Core Earnings, as defined in the Management Agreement, did not exceed the Incentive Compensation Hurdle.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to pay dividends, fund investments, repay borrowings and provide for other general business needs, including payment of our base management fee and incentive compensation. Our ability to meet our on-going liquidity needs is subject to our ability to generate cash from operating activities and our ability to maintain and/or obtain additional debt financing and equity capital together with the funding sources referred to below.

During the year ended December 31, 2019, our principal sources of liquidity were proceeds of: (i) \$863.5 million (net) from financing sourced from our CRE - term repurchase facilities and CMBS - short-term repurchase agreement proceeds, (ii) \$123.4 million from net repayments on our CRE loan portfolio, (iii) \$46.3 million from our CRE securitizations that used repaid principal to invest in CRE loan future funding commitments and (iv) \$31.5 million from the close of XAN 2019-RSO7. These sources of liquidity, offset by our deployments in CRE debt investments, distributions on our common and preferred stock and operating expenses, substantially resulted in the \$80.0 million of unrestricted cash we held at December 31, 2019.

We expect that the expansion of our fixed-rate CRE loan platform may result in increases to our margin requirements.

We utilize a variety of financing arrangements to finance certain assets. We generally utilize the following two types of financing arrangements:

1. *Repurchase Agreements:* Repurchase agreements effectively allow us to borrow against loans and securities that we own. Under these agreements, we sell our loans and securities to a counterparty and agree to repurchase the same loans and securities from the counterparty at a price equal to the original sales price plus interest. The counterparty retains the sole discretion over whether to purchase the loan and security from us and, subject to certain conditions, the market value of such loan or security for purposes of determining whether we are required to pay margin to the counterparty. Generally, if the lender determines (subject to certain conditions) that the market value of the collateral in a repurchase transaction has decreased by more than a defined minimum amount, we would be required to repay any amounts borrowed in excess of the product of (i) the revised market value multiplied by (ii) the applicable advance rate. During the term of a repurchase agreement, we receive the principal and interest on the related loans and securities and pay interest to the counterparty.

At December 31, 2019, we had various repurchase agreements, as summarized below (in thousands, except amounts in footnotes):

	Execution Date	Maturity Date ⁽¹⁾	Maximum Capacity	Repurchase Principal Outstanding (2)	Availability
CRE - Term Repurchase Facilities					
Wells Fargo Bank, N.A.	February 2012	July 2020	\$ 400,000	\$ 225,470	\$ 174,530
Barclays Bank PLC	April 2018	April 2021	250,000	112,536	137,464
JPMorgan Chase Bank, N.A.	October 2018	October 2021	250,000	208,803	41,197
CMBS - Short-Term Repurchase Agreements					
Deutsche Bank Securities Inc.	March 2005	February 2020	N/A	36,985	N/A
JP Morgan Securities LLC	November 2012	January 2020	N/A	33,676	N/A
Barclays Capital Inc.	February 2013	January 2020	N/A	87,544	N/A
RBC Capital Markets, LLC	August 2017	January 2020	N/A	34,787	N/A
RBC (Barbados) Trading Bank Corporation	October 2019	January 2020	N/A	181,438	N/A
Total				<u>\$ 921,239</u>	

(1) The CMBS - short-term repurchase agreements' maturity dates represent the next interest payment and extension dates. The agreements do not contain defined maturity dates.

(2) Excludes accrued interest payable of \$1.3 million and deferred debt issuance costs and discounts of \$2.7 million at December 31, 2019.

The following table summarizes the average principal outstanding on our term and short-term repurchase agreements during the three months ended December 31, 2019 and 2018 and the principal outstanding on our term and short-term repurchase agreements at December 31, 2019 and 2018 (in thousands, except amounts in footnotes):

	Three Months Ended December 31, 2019		Three Months Ended December 31, 2018	
	Average Principal Outstanding	Principal Outstanding ⁽¹⁾⁽²⁾	Average Principal Outstanding	Principal Outstanding ⁽¹⁾⁽²⁾
Term and Short-Term Repurchase Agreements				
Collateralized by CRE loans	\$ 472,099	\$ 546,809	\$ 467,939	\$ 559,138
Collateralized by CMBS	337,648	374,430	267,990	295,048
Total	<u>\$ 809,747</u>	<u>\$ 921,239</u>	<u>\$ 735,929</u>	<u>\$ 854,186</u>

(1) Excludes accrued interest payable on repurchase agreements collateralized by CRE loans of \$810,000 and \$1.0 million and deferred debt issuance costs and discounts of \$2.7 million and \$5.5 million at December 31, 2019 and 2018, respectively.

(2) Excludes accrued interest payable on repurchase agreements collateralized by CMBS of \$470,000 and \$773,000 at December 31, 2019 and 2018, respectively.

The following table summarizes the maximum month-end principal outstanding on our term and short-term repurchase agreements during the periods presented (in thousands):

	Maximum Month-End Principal Outstanding During the	
	Years Ended December 31,	
	2019	2018
Term and Short-Term Repurchase Agreements ⁽¹⁾		
Collateralized by CRE loans	\$ 665,294	\$ 561,382
Collateralized by CMBS	\$ 374,430	\$ 295,048

(1) Increases in the maximum month-end outstanding principal balances for the periods presented resulted from the originations and acquisitions of CRE loans and CMBS.

2. *Securitizations:* We seek non-recourse long-term financing from securitizations of our investments in CRE loans. The securitizations generally involve a senior portion of our loan, but may involve the entire loan. Securitization generally involves transferring notes to a special purpose vehicle (or the issuing entity), which then issues one or more classes of non-recourse notes pursuant to the terms of an indenture. The notes are secured by the pool of assets. In exchange for the transfer of assets to the issuing entity, we receive cash proceeds from the sale of non-recourse notes. Securitizations of our portfolio investments might magnify our exposure to losses on those portfolio investments because the retained subordinate interest in any particular overall loan would be subordinate to the loan components sold and we would, therefore, absorb all losses sustained with respect to the overall loan before the owners of the senior notes experience any losses with respect to the loan in question.

During the year ended December 31, 2018, our principal sources of liquidity were proceeds of: (i) \$839.4 million from financing sourced from our CRE term facilities and net CMBS repurchase agreement proceeds, (ii) \$241.0 million from repayments on our CRE loan portfolio, (iii) \$63.2 million of net proceeds from the close of XAN 2018-RSO6, (iv) \$33.3 million from paydowns and sales on our CMBS portfolio, (v) \$29.7 million from the sale of middle market loans, (vi) \$14.4 million from our CRE securitization that used repaid principal to invest in CRE loan future funding commitments, (vii) \$12.0 million from the sale of a legacy CRE loan classified as an asset held for sale, (viii) \$10.4 million from our interest in Pelium Capital, an equity method investment, (ix) \$6.4 million from our investment in life settlement contracts and (x) \$4.7 million from the sale of a CRE whole loan. These sources of liquidity, offset by our deployments in CRE debt investments, repurchase of preferred stock, repayment of our 6.00% Convertible Senior Notes and distributions on our common and preferred stock, substantially resulted in the \$82.8 million of unrestricted cash we held at December 31, 2018.

Historically, we financed the acquisition of our investments through CDOs and securitizations that essentially match the maturity and repricing dates of these financing vehicles with the maturities and repricing dates of our investments. In the past, we have derived substantial operating cash from our equity investments in our CDOs and securitizations, which will cease if the CDOs and securitizations fail to meet certain tests. Through December 31, 2019, we did not experience difficulty in maintaining our existing CDO and securitization financing and passed all of the critical tests required by these financings.

The following table sets forth the distributions received by us and coverage test summaries for each of our active securitizations at the periods presented (in thousands):

Name	Cash Distributions For the Year Ended		Overcollateralization Cushion ⁽¹⁾		End of Designated Principal Reinvestment Period
	December 31, 2019	December 31, 2018	At December 31, 2019	At the Initial Measurement Date	
XAN 2018-RSO6 ⁽²⁾	\$ 17,959	\$ 8,323	\$ 71,186	\$ 25,731	December 2020
XAN 2019-RSO7 ⁽²⁾	\$ 10,672	\$ —	\$ 34,356	\$ 34,341	April 2022
Apidos CDO I, Ltd. ⁽³⁾	\$ 708	\$ —	N/A	\$ 17,136	N/A
Apidos CDO III, Ltd. ⁽³⁾	\$ —	\$ 618	N/A	\$ 11,269	N/A

(1) Overcollateralization cushion represents the amount by which the collateral held by the securitization issuer exceeds the minimum amount required.

(2) The designated principal reinvestment period for XAN 2018-RSO6 and XAN 2019-RSO7 is the period in which principal repayments can be utilized to purchase loans held outside of the respective securitization that represent the funded commitments of existing collateral in the respective securitization that were not funded as of the date the respective securitization was closed. Additionally, the indenture for each securitization does not contain any interest coverage test provisions.

(3) Apidos CDO I and Apidos CDO III were substantially liquidated in October 2014 and June 2015, respectively.

The following table sets forth the distributions made by and liquidation details for our liquidated securitizations for the periods presented (in thousands):

Name	Cash Distributions For the Year Ended		Liquidation Details	
	December 31, 2019	December 31, 2018	Liquidation Date	Remaining Assets at the Liquidation Date ⁽¹⁾
RCC 2015-CRE3	\$ —	\$ 3,529	August 2018	\$ 80,632
RCC 2015-CRE4	\$ —	\$ 4,487	July 2018	\$ 97,825
RCC 2017-CRE5	\$ 12,551	\$ 22,843	July 2019	\$ 112,753
Whitney CLO I, Ltd. ⁽²⁾	\$ 68	\$ —	January 2019	\$ —

(1) The remaining assets at the liquidation date were distributed to us in exchange for our preference shares and equity notes in the respective securitization.

(2) Whitney CLO I, Ltd. was substantially liquidated in September 2013.

At February 29, 2020 our liquidity is derived from two primary sources:

- unrestricted cash and cash equivalents of \$70.2 million; and
- approximately \$68.5 million of liquidity from available financing of unlevered CRE loans and CMBS.

Our leverage ratio, defined as the ratio of borrowings to stockholders' equity, may vary as a result of the various funding strategies we use. At December 31, 2019 and 2018, our leverage ratio under GAAP was 3.4 and 2.8 times, respectively. The leverage ratio increase was driven primarily by our increase in borrowings during 2019.

Distributions

We intend to continue to make regular quarterly distributions to holders of our common stock and preferred stock. U.S. federal income tax law generally requires that a REIT distribute at least 90% of its REIT taxable income annually, determined without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating and debt service requirements on our repurchase agreements and other debt payable. If our cash available for distribution is less than our taxable income, we could be required to sell assets or borrow funds to make cash distributions, or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

Contractual Obligations and Commitments

	Contractual Commitments (dollars in thousands)				
	Payments due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
At December 31, 2019:					
CRE securitizations	\$ 752,797	\$ —	\$ —	\$ —	\$ 752,797
Unsecured junior subordinated debentures ⁽¹⁾	51,548	—	—	—	51,548
4.50% Convertible Senior Notes ⁽²⁾	143,750	—	143,750	—	—
8.00% Convertible Senior Notes ⁽³⁾	21,182	21,182	—	—	—
Repurchase and credit facilities ⁽⁴⁾	922,519	600,724	321,795	—	—
Unfunded commitments on CRE loans ⁽⁵⁾	100,946	42,336	58,610	—	—
Base management fees ⁽⁶⁾	8,415	8,415	—	—	—
Total	\$ 2,001,157	\$ 672,657	\$ 524,155	\$ —	\$ 804,345

(1) Contractual commitments exclude \$24.6 million and \$25.3 million of estimated interest expense payable through maturity, in June 2036 and October 2036, respectively, on our trust preferred securities.

(2) Contractual commitments exclude \$17.2 million of interest expense payable through maturity, in August 2022, on our 4.50% Convertible Senior Notes.

(3) Contractual commitments exclude \$71,000 of interest expense payable through maturity, in January 2020, on our 8.00% Convertible Senior Notes.

(4) Contractual commitments include \$1.3 million of accrued interest payable at December 31, 2019 on our repurchase facilities.

(5) Unfunded commitments on our originated CRE whole loans generally fall into two categories: (i) pre-approved capital improvement projects and (ii) new or additional construction costs subject, in each case, to the borrower meeting specified criteria. Upon completion of the improvements or construction, we would receive additional interest income on the advanced amount. At December 31, 2019, we had unfunded commitments on 70 CRE whole loans and one CRE preferred equity investment.

(6) Base management fees presented are based on an estimate of base management fees payable to our Manager over the next 12 months. Our Management Agreement also provides for an incentive compensation arrangement that is based on operating performance. The incentive compensation is not a fixed and determinable amount, and therefore it is not included in this table.

Off-Balance Sheet Arrangements

General

At December 31, 2019, we did not maintain any relationships with unconsolidated entities or financial partnerships that were established for the purpose of facilitating off-balance sheet arrangements or contractually narrow or limited purposes, although we do have interests in unconsolidated entities not established for those purposes. Except as set forth below, at December 31, 2019, we had not guaranteed obligations of any unconsolidated entities or entered into any commitment or letter of intent to provide additional funding to any such entities.

Unfunded CRE Loan Commitments

In the ordinary course of business, we make commitments to borrowers whose loans are in our CRE loan portfolio to provide additional loan funding in the future. Disbursement of funds pursuant to these commitments is subject to the borrower meeting pre-specified criteria. These commitments are subject to the same underwriting requirements and ongoing portfolio maintenance as are the on-balance sheet financial investments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Whole loans had \$98.0 million and \$105.7 million in unfunded loan commitments at December 31, 2019 and 2018, respectively. Preferred equity investments had \$3.0 million in unfunded investment commitments at December 31, 2019. There were no preferred equity investment unfunded commitments at December 31, 2018.

Guarantees and Indemnifications

In the ordinary course of business, we may provide guarantees and indemnifications that contingently obligate us to make payments to the guaranteed or indemnified party based on changes in the value of an asset, liability or equity security of the guaranteed or indemnified party. As such, we may be obligated to make payments to a guaranteed party based on another entity's failure to perform or achieve specified performance criteria, or we may have an indirect guarantee of the indebtedness of others.

In May 2017, we received proceeds of \$16.2 million from the sale of our equity interest in Pearlmark Mezz, an unconsolidated entity. As part of our sale of Pearlmark Mezz, we entered into an indemnification agreement whereby we indemnified the purchaser against realized losses of up to \$4.3 million on one mezzanine loan until its final maturity date in 2020. As a result, we recorded a \$703,000 reserve for probable indemnification losses to establish a contingent liability during the year ended December 31, 2017. During the year ended December 31, 2019, we recorded a reversal of our reserve for probable losses of \$647,000 in connection with a reduction in the indemnified party's exposure following the partial sale of the mezzanine loan by the indemnified party. As a result of the indemnified party's partial sale of the mezzanine loan, our maximum exposure was reduced to \$536,000. At December 31, 2019 and 2018, we had a contingent liability, reported in accounts payable and other liabilities on our consolidated balance sheet, of \$56,000 and \$703,000, respectively, outstanding as a reserve for probable indemnification losses.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared by management in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions that may affect the value of our assets or liabilities and disclosure of contingent assets and liabilities at the date of our financial statements, and our financial results. We believe that certain of our policies are critical because they require us to make difficult, subjective and complex judgments about matters that are inherently uncertain. The critical policies summarized below relate to valuation of investment securities, accounting for derivative financial instruments and hedging activities, income taxes, allowance for loan losses and variable interest entities ("VIEs"). We have reviewed these accounting policies with our Board and believe that all of the decisions and assessments upon which our financial statements are based were reasonable at the time made based upon information available to us at the time.

Valuation of Investment Securities

We classify our investment portfolio as either available-for-sale investments or trading investments. For a discussion of the basis of fair value analysis, and of the determination of whether an asset's valuation should be characterized as Level 1, Level 2 or Level 3, see Note 2 in "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements."

We report investment securities available-for-sale at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) on our consolidated balance sheets. We also report investment securities, trading at fair value with unrealized gains and losses reported as net realized and unrealized gain (loss) on investment securities, trading on the consolidated statements of operations. At December 31, 2019, we had aggregate net unrealized gains on our available-for-sale securities of \$5.8 million. At December 31, 2018, we had aggregate net unrealized losses on our available-for-sale securities of \$3.6 million. To determine fair value, we use an independent third-party valuation firm utilizing data available in the market as well as appropriate prepayment, default and recovery rates. We evaluate the reasonableness of the valuation we receive by using a dealer quote, bid or internal model. If there is a material difference between the value indicated by the third-party valuation firm and the dealer quote, we will evaluate the difference that could result in an updated valuation from the third-party firm or a revised dealer quote. Based on the prioritization of inputs used in valuation of each position, we categorize these investments as either Level 2 or 3 in the fair value hierarchy.

We are required to determine when an investment is considered impaired (i.e., a decline in fair value below its amortized cost), evaluate whether the impairment is other-than-temporary (i.e., the investment value will not be recovered over its remaining life), and, if the impairment is other-than-temporary, recognize an impairment loss equal to the difference between the investment's cost and its fair value, see Note 2 in "Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements."

We record investment securities transactions on the trade date. We record purchases of newly issued securities when all significant uncertainties regarding the characteristics of the securities are removed, generally shortly before settlement date. We determine realized gains and losses on investment securities on the specific identification method.

Accounting for Derivative Financial Instruments and Hedging Activities

We enter into derivative contracts, including interest rate swaps and interest rate caps, as a means of mitigating our interest rate risk on forecasted interest expense associated with the benchmark rate on forecasted rollover/reissuance of repurchase agreements or the interest rate repricing of repurchase agreements, or other similar hedged items, for a specified future time period.

The contracts we have entered into, from time to time, have been designated as cash flow hedges and are evaluated at inception and on an ongoing basis in order to determine whether they qualify for hedge accounting. The hedge instrument must be highly effective in achieving offsetting changes in the hedged item attributable to the risk being hedged in order to qualify for hedge accounting. The interest rate swap contracts are carried on our consolidated balance sheets at fair value. Any ineffectiveness which arises during the hedging relationship must be recognized in interest expense or income during the period in which it arises. Before the end of the specified hedge time period, the effective portion of all contract gains and losses (whether realized or unrealized) is recorded in other comprehensive income or loss. Realized gains and losses on the interest rate hedges are reclassified into earnings as an adjustment to interest expense during the period after the swap repricing date through the remaining maturity of the swap. For taxable income purposes, realized gains and losses on interest rate cap and swap contracts are reclassified into earnings over the term of the hedged transactions as designated for tax.

We are not required to account for derivative contracts using hedge accounting as described above. If we decided not to designate the derivative contracts as hedges and to monitor their effectiveness as hedges, or if we entered into other types of financial instruments that did not meet the criteria to be designated as hedges, changes in the fair values of these instruments would be recorded in our consolidated statements of operations, potentially resulting in increased volatility in our earnings.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns.

The tax rates we use to determine deferred tax assets or liabilities are the enacted tax rates in effect for the year in which we expect the differences to reverse. We recognize effects of tax rate changes on deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws in net earnings in the period during which such changes are enacted. The future realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. We continually evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing forecasted taxable income using both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carryback years (if permitted) and the availability of tax planning strategies. We must establish a valuation allowance unless we determine that it is more likely than not that we will ultimately realize the tax benefit associated with a deferred tax asset.

We account for taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction (e.g., sales, use, value added) on a net (excluded from revenue) basis.

U.S. Tax Cuts and Jobs Act

In December 2017, the Tax Cuts and Jobs Act (“TCJA”) was signed into law. The TCJA reduced the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. We were required to revalue our U.S. deferred tax assets and liabilities at the new federal corporate income tax rate as of the date of enactment of the TCJA and to include the rate change effect in the tax provision for the year ended December 31, 2018. Due to the valuation allowance, recorded against our net deferred tax assets, the rate change did not have any impact on our deferred tax expense. As part of U.S. international tax reform, the TCJA imposes a transition tax on certain accumulated foreign earnings aggregated across all non-U.S. subsidiaries, net of foreign deficits. At December 31, 2019, we do not have any foreign activity that would be subject to the transition tax.

Allowance for Loan Losses

We maintain an allowance for loan losses. Loans held for investment are first individually evaluated for impairment, and then evaluated as a homogeneous pool of loans with substantially similar characteristics for impairment. We perform the reviews at least quarterly.

We consider an individual loan to be impaired when, based on current information and events and/or appraisals of the underlying collateral, management believes it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, we increase the allowance for loan losses by the amount of the excess of the amortized cost basis of the loan over its fair value. Fair value may be determined based on the present value of estimated cash flows; on market price, if available; or the fair value of the collateral less estimated disposition costs. When we consider a loan, or a portion thereof, uncollectible and pursuit of the collection is not warranted, we will record a charge-off or write-down of the loan against the allowance for credit losses.

Variable Interest Entities

We consolidate entities that are VIEs where we have determined that we are the primary beneficiary of such entities. Once it is determined that we hold a variable interest in a VIE, management performs a qualitative analysis to determine (i) if we have the power to direct the matters that most significantly impact the VIE's financial performance; and (ii) if we have the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive the benefits of the VIE that could potentially be significant to the VIE. If our variable interest possesses both of these characteristics, we are deemed to be the primary beneficiary and would be required to consolidate the VIE. This assessment must be done on an ongoing basis.

At December 31, 2019, we determined that we are the primary beneficiary in five VIEs that are consolidated.

Recent Accounting Pronouncements

Accounting Standards Adopted in 2019

In June 2018, the FASB issued guidance to simplify the accounting for share-based payment transactions for acquiring goods and services from nonemployees by including these payments in the scope of the guidance for share-based payments to employees. In accordance with the guidance, our unvested issuances to our Manager and to non-employees granted prior to the January 1, 2019 adoption date were remeasured at fair value as of the adoption date with no subsequent remeasurement. Unvested issuances will continue to be amortized on a straight-line basis over the service period. Adoption did not have a material impact on our consolidated financial statements.

In February 2018, the FASB issued guidance to allow a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the TCJA. Adoption did not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities. Additionally, the guidance simplifies the application of the hedge accounting guidance via certain targeted improvements. In October 2018, the FASB updated the guidance to add a benchmark interest rate permitted for hedge accounting purposes. Adoption did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued guidance requiring lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting will remain largely unchanged. The guidance will also require new qualitative and quantitative disclosures to help financial statement users better understand the timing, amount and uncertainty of cash flows arising from leases. Adoption did not have a material impact on our consolidated financial statements.

Accounting Standards to be Adopted in Future Periods

In August 2018, the FASB issued guidance to modify the fair value measurement disclosure requirements, including: disclosures on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, the policy for timing of transfers between levels and the narrative description of measurement uncertainty. The guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period. We are in the process of evaluating the impact of this new guidance.

In January 2017, the FASB issued guidance to add the SEC Staff Announcement "Disclosure of the Impact that Recently Issued Accounting Standards will have on the Financial Statements of a Registrant when such Standards are Adopted in a Future Period (in accordance with Staff Accounting Bulletin Topic 11.M)." The announcement applies to the May 2014 guidance on revenue recognition from contracts with customers, the February 2016 guidance on leases and the June 2016 guidance on how credit losses for financial assets at amortized cost and certain other instruments that are measured at fair value through net income are determined. The announcement provides the SEC staff view that a registrant should evaluate certain recent accounting standards that have not yet been adopted to determine appropriate financial statement disclosures about the potential material effects of those recent accounting standards. If a registrant does not know or cannot reasonably estimate the impact that adoption of the recent accounting standards referenced in this announcement is expected to have on the financial statements, then the registrant should make a statement to that effect and consider the additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the recent accounting standards will have on the financial statements of the registrant when adopted. We have completed our assessment under the new guidance on revenue recognition from contracts with customers in 2018 and on leases, see "Accounting Standards Adopted in 2019." While we are currently evaluating the impact of the guidance on the measurement of credit losses on financial instruments, we expect this standard will impact the consolidated financial statements, as described below.

In June 2016, the FASB issued guidance that will change how credit losses for most financial assets and certain other instruments that are measured at fair value through net income are determined. The new guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. For available-for-sale debt securities, the guidance requires recording allowances rather than reducing the carrying amount, as we are currently under the other-than-temporary impairment model. It also simplifies the accounting model for credit-impaired debt securities and loans. In November 2018, the FASB issued amendments to the guidance, including the clarification that operating leases are excluded from the scope of the guidance. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period.

The new guidance gives an entity flexibility to select an appropriate method to measure the estimate for expected credit losses, provided that such estimates be based on relevant information about past events, including historical losses, current portfolio and market conditions, and reasonable and supportable forecasts for the duration of each asset that are applied consistently over time. We engaged a third-party advisor to assist in the implementation of the new guidance and provide a modeling software and market loan loss database. We expect to utilize a probability of default and loss given default methodology over a reasonable and supportable forecast period, after which we will revert immediately to our historical mean loss ratio, utilizing a blended approach sourced from our own historical losses and the market losses from the third party's database, to be applied for the remaining estimable period.

The expected loss model requires us to make significant judgements, including: (i) the selection of a reasonable and supportable forecast period, (ii) projections for the amounts and timing of future fundings of committed balances and prepayments on CRE investments, (iii) the determination of the risk characteristics in which to pool financial assets, and (iv) the appropriate historical loss data to utilize in the model. We expect to utilize a one year reasonable and supportable forecast period in which we will apply the probability of default and loss given default methodology. CRE loans will be pooled based on the underlying property type collateralizing the respective loans. We expect to utilize our full, 13 year underwriting history in the determination of historical losses, along with the market loss history of a selected population of loans from the third party's database that were similar to our loan types, loan sizes, durations, interest rate structure and general LTV profiles.

Upon adoption on January 1, 2020, we expect to record an initial current expected credit losses ("CECL") reserve of approximately \$4.5 million, of which \$3.0 million, or \$0.10 per share, will be recorded as a charge to retained earnings. The estimated CECL reserve represents 0.25% of the aggregate outstanding principal balance of our \$1.8 billion CRE loan portfolio at December 31, 2019. Subsequent increases and decreases in expected credit losses will be recorded in our consolidated statement of operations.

Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our consolidated financial statements are prepared in accordance with GAAP and our distributions are determined by our Board based primarily on our maintaining our REIT qualification; in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2019, the primary component of our market risk was interest rate risk, as described below. While we do not seek to avoid risk completely, we do seek to assume risk that can be quantified from historical experience, to actively manage that risk, to earn sufficient compensation to justify assuming that risk and to maintain capital levels consistent with the risk we undertake or to which we are exposed.

Effect on Fair Value

A component of interest rate risk is the effect that changes in interest rates will have on the fair value of our assets. We face the risk that the fair value of our assets will increase or decrease at different rates than that of our liabilities, including our hedging instruments.

We primarily assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities.

The following sensitivity analysis table presents, at December 31, 2019, the estimated impact on the fair value of our interest rate-sensitive investments, instruments and liabilities of changes in interest rates, assuming rates instantaneously fall 100 basis points and rise 100 basis points (dollars in thousands):

	December 31, 2019		
	Interest Rates Fall 100 Basis Points	Unchanged	Interest Rates Rise 100 Basis Points
Interest rate-sensitive investments securities:			
Fair value	\$ 136,048	\$ 128,528	\$ 122,945
Change in fair value	7,520	—	(5,583)
Change as a percent of fair value	6%	—%	(4)%
Interest rate-sensitive hedging instruments:			
Fair value	\$ (10,415)	\$ (4,528)	\$ 941
Change in fair value	(5,887)	—	5,469
Change as a percent of fair value	130%	—%	(121)%

For purposes of the table, we have excluded our investments and liabilities with variable interest rates that are indexed to LIBOR. Because the variable rates on these instruments are short-term in nature, we are not subject to material exposure from movements in fair value as a result of changes in interest rates.

It is important to note that the impact of changing interest rates on fair value can change significantly when interest rates change beyond 100 basis points from current levels. Therefore, the volatility in the fair value of our assets could increase significantly when interest rates change beyond 100 basis points from current levels. In addition, other factors impact the fair value of our interest rate-sensitive investment securities and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of our assets would likely differ from that shown above and such difference might be material and adverse to our stockholders.

Risk Management

To the extent consistent with maintaining our status as a REIT, we seek to manage our interest rate risk exposure to protect our variable rate debt against the effects of major interest rate changes. We generally seek to manage our interest rate risk by:

- monitoring and adjusting, if necessary, the reset index and interest rate related to our borrowings;
- attempting to structure our borrowing agreements for our commercial mortgage-backed securities to have a range of different maturities, terms, amortizations and interest rate adjustment periods; and
- using derivatives to adjust the interest rate-sensitivity of our variable rate borrowings, which we discuss in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Hedging Instruments.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Exantas Capital Corp.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Exantas Capital Corp. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules included under Item 15(a)(2) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated March 9, 2020 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2005.

Philadelphia, Pennsylvania
March 9, 2020

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31,	
	2019	2018
ASSETS ⁽¹⁾		
Cash and cash equivalents	\$ 79,958	\$ 82,816
Restricted cash	14,476	12,658
Accrued interest receivable	8,042	8,198
CRE loans, net of allowances of \$1,460 and \$1,401	1,789,985	1,551,967
Investment securities available-for-sale	520,714	418,998
Principal paydowns receivable	19,517	32,083
Investments in unconsolidated entities	1,548	1,548
Derivatives, at fair value	30	985
Other assets	3,290	4,015
Assets held for sale (see Note 23)	16,766	17,645
Total assets	<u>\$ 2,454,326</u>	<u>\$ 2,130,913</u>
LIABILITIES ⁽²⁾		
Accounts payable and other liabilities	\$ 3,408	\$ 7,550
Management fee payable	701	938
Accrued interest payable	4,408	4,224
Borrowings	1,872,577	1,554,223
Distributions payable	10,492	7,265
Derivatives, at fair value	4,558	1,043
Accrued tax liability	38	31
Liabilities held for sale (see Note 23)	1,746	1,820
Total liabilities	<u>1,897,928</u>	<u>1,577,094</u>
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$0.001: 10,000,000 shares authorized 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share; 4,800,000 and 4,800,000 shares issued and outstanding	5	5
Common stock, par value \$0.001: 125,000,000 shares authorized; 31,880,594 and 31,657,499 shares issued and outstanding (including 420,962 and 422,671 unvested restricted shares)	32	32
Additional paid-in capital	1,085,041	1,082,677
Accumulated other comprehensive income (loss)	1,821	(3,057)
Distributions in excess of earnings	(530,501)	(525,838)
Total stockholders' equity	<u>556,398</u>	<u>553,819</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 2,454,326</u>	<u>\$ 2,130,913</u>

The accompanying notes are an integral part of these statements

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (Continued)
(in thousands, except share and per share data)

	December 31,	
	2019	2018
(1) Assets of consolidated variable interest entities (“VIEs”) included in total assets above:		
Restricted cash	\$ 532	\$ 6,189
Accrued interest receivable	3,780	3,548
CRE loans, pledged as collateral	957,045	700,986
Principal paydowns receivable	19,239	31,914
Other assets	25	157
Total assets of consolidated VIEs	<u>\$ 980,621</u>	<u>\$ 742,794</u>
(2) Liabilities of consolidated VIEs included in total liabilities above:		
Accounts payable and other liabilities	\$ 175	\$ 75
Accrued interest payable	897	709
Borrowings	746,439	501,045
Total liabilities of consolidated VIEs	<u>\$ 747,511</u>	<u>\$ 501,829</u>

The accompanying notes are an integral part of these statements

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Years Ended December 31,		
	2019	2018	2017
REVENUES			
Interest income:			
CRE loans	\$ 118,060	\$ 103,800	\$ 88,268
Securities	26,190	18,600	8,501
Other	636	379	2,549
Total interest income	144,886	122,779	99,318
Interest expense	83,837	67,616	57,657
Net interest income	61,049	55,163	41,661
Other revenue	101	120	2,048
Total revenues	61,150	55,283	43,709
OPERATING EXPENSES			
Management fees	8,954	11,250	13,117
Equity compensation	2,212	2,717	2,738
General and administrative	10,392	10,666	15,846
Depreciation and amortization	47	77	139
Impairment losses	—	934	177
Provision for (recovery of) loan and lease losses, net	58	(1,595)	1,772
Total operating expenses	21,663	24,049	33,789
	39,487	31,234	9,920
OTHER INCOME (EXPENSE)			
Equity in earnings of unconsolidated entities	—	217	39,545
Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives	4	639	18,334
Net realized and unrealized gain (loss) on investment securities, trading	—	53	(954)
Fair value adjustments on financial assets held for sale	(4,682)	(7,176)	(1,831)
Loss on extinguishment of debt	—	—	(10,365)
Other income (expense)	1,408	1,996	(579)
Total other (expense) income	(3,270)	(4,271)	44,150
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	36,217	26,963	54,070
Income tax benefit (expense)	—	343	(6,613)
NET INCOME FROM CONTINUING OPERATIONS	36,217	27,306	47,457
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	(251)	121	(14,116)
NET INCOME	35,966	27,427	33,341
Net income allocated to preferred shares	(10,350)	(12,972)	(24,057)
Consideration paid in excess of carrying value for preferred shares	—	(7,482)	(3,803)
Net loss allocable to non-controlling interest, net of taxes	—	—	196
NET INCOME ALLOCABLE TO COMMON SHARES	\$ 25,616	\$ 6,973	\$ 5,677
NET INCOME PER COMMON SHARE - BASIC:			
CONTINUING OPERATIONS	\$ 0.82	\$ 0.22	\$ 0.64
DISCONTINUED OPERATIONS	—	—	(0.46)
TOTAL NET INCOME PER COMMON SHARE - BASIC	\$ 0.82	\$ 0.22	\$ 0.18
NET INCOME PER COMMON SHARE - DILUTED:			
CONTINUING OPERATIONS	\$ 0.81	\$ 0.22	\$ 0.64
DISCONTINUED OPERATIONS	—	—	(0.46)
TOTAL NET INCOME PER COMMON SHARE - DILUTED	\$ 0.81	\$ 0.22	\$ 0.18
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	31,430,113	31,198,319	30,836,400
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	31,670,356	31,383,102	31,075,787

The accompanying notes are an integral part of these statements

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Years Ended December 31,		
	2019	2018	2017
Net income	\$ 35,966	\$ 27,427	\$ 33,341
Other comprehensive income (loss):			
Reclassification adjustments for realized gains on investment securities available-for-sale included in net income	(4)	(135)	(534)
Unrealized gains (losses) on investment securities available-for-sale, net	9,444	(4,180)	(1,870)
Reclassification adjustments associated with unrealized (gains) losses from interest rate hedges included in net income	(91)	(22)	18
Unrealized (losses) gains on derivatives, net	(4,471)	(17)	602
Total other comprehensive income (loss)	4,878	(4,354)	(1,784)
Comprehensive income before allocation to non-controlling interests and preferred shares	40,844	23,073	31,557
Net income allocated to preferred shares	(10,350)	(12,972)	(24,057)
Consideration paid in excess of carrying value for preferred shares	—	(7,482)	(3,803)
Net loss allocable to non-controlling interests	—	—	196
Comprehensive income allocable to common shares	<u>\$ 30,494</u>	<u>\$ 2,619</u>	<u>\$ 3,893</u>

The accompanying notes are an integral part of these statements

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(in thousands, except share and per share data)

	Common Stock					Accumulated Other				Total Stockholders' Equity	Non-Controlling Interests	Total Equity
	Shares	Amount	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock	Additional Paid-In Capital	Comprehensive Income (Loss)	Retained Earnings	Distributions in Excess of Earnings			
Balance, January 1, 2017	31,050,020	\$ 31	\$ 1	\$ 6	\$ 5	\$ 1,218,352	\$ 3,081	\$ —	\$ (517,177)	\$ 704,299	\$ (1,209)	\$ 703,090
Offering costs	—	—	—	—	—	(385)	—	—	—	(385)	—	(385)
Equity component of 4.50% Convertible Senior Notes	—	—	—	—	—	14,231	—	—	—	14,231	—	14,231
Stock-based compensation	422,622	—	—	—	—	539	—	—	—	539	—	539
Amortization of stock-based compensation	—	—	—	—	—	3,172	—	—	—	3,172	—	3,172
Retirement of common stock	(16,137)	—	—	—	—	(150)	—	—	—	(150)	—	(150)
Forfeiture of unvested stock	(26,613)	—	—	—	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	—	—	—	—	33,537	—	33,537	(196)	33,341
Distributions on preferred stock	—	—	—	—	—	—	—	(24,057)	—	(24,057)	—	(24,057)
Preferred stock redemption	—	—	—	—	—	(46,244)	—	(3,803)	—	(50,049)	—	(50,049)
Securities available-for-sale, fair value adjustment, net	—	—	(1)	(1)	—	—	(2,403)	—	—	(2,403)	—	(2,403)
Designated derivatives, fair value adjustment	—	—	—	—	—	—	619	—	—	619	—	619
Distributions on common stock	—	—	—	—	—	—	—	(5,677)	(596)	(6,273)	—	(6,273)
Repurchase of conversion option	—	—	—	—	—	(194)	—	—	—	(194)	—	(194)
Purchase of non-controlling interest	—	—	—	—	—	(1,410)	—	—	—	(1,410)	1,405	(5)
Balance, December 31, 2017	31,429,892	\$ 31	\$ —	\$ 5	\$ 5	\$ 1,187,911	\$ 1,297	\$ —	\$ (517,773)	\$ 671,476	\$ —	\$ 671,476

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017 - (Continued)
(in thousands, except share and per share data)

	Common Stock					Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity	Non-Controlling Interests	Total Equity
	Shares	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock	Series C							
Balance, January 1, 2018	31,429,892	\$ 31	\$ —	\$ 5	\$ 5	\$ 1,187,911	\$ 1,297	\$ —	\$ (517,773)	\$ 671,476	\$ —	\$ 671,476
Stock-based compensation	239,589	1	—	—	—	—	—	—	—	1	—	1
Amortization of stock-based compensation	—	—	—	—	—	2,717	—	—	—	—	—	2,717
Retirement of common stock	(7,134)	—	—	—	—	—	—	—	—	—	—	—
Forfeiture of unvested stock	(4,848)	—	—	—	—	(70)	—	—	—	(70)	—	(70)
Net income	—	—	—	—	—	—	—	27,427	—	27,427	—	27,427
Distributions on preferred stock	—	—	—	—	—	—	—	(12,972)	—	(12,972)	—	(12,972)
Preferred stock redemption	—	—	—	—	—	(107,881)	—	(7,482)	—	(115,368)	—	(115,368)
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	—	(4,315)	—	—	(4,315)	—	(4,315)
Designated derivatives, fair value adjustment	—	—	—	—	—	—	(39)	—	—	(39)	—	(39)
Distributions on common stock	—	—	—	—	—	—	—	(6,973)	(8,065)	(15,038)	—	(15,038)
Balance, December 31, 2018	31,657,499	\$ 32	\$ —	\$ 5	\$ 5	\$ 1,082,677	\$ (3,057)	\$ —	\$ (525,838)	\$ 553,819	\$ —	\$ 553,819

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017 - (Continued)
(in thousands, except share and per share data)

	Common Stock					Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity	Non-Controlling Interests	Total Equity
	Shares	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock	Series A Preferred Stock							
Balance, January 1, 2019	31,657,499	\$ 32	\$ —	\$ 5	\$ 1,082,677	\$ (3,057)	\$ —	\$ —	\$ (525,838)	\$ 553,819	\$ —	\$ 553,819
Stock-based compensation	237,233	—	—	—	152	—	—	—	—	152	—	152
Amortization of stock-based compensation	—	—	—	—	2,212	—	—	—	—	2,212	—	2,212
Forfeiture of unvested stock	(14,138)	—	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	35,966	—	35,966	—	35,966
Distributions on preferred stock	—	—	—	—	—	—	—	(10,350)	—	(10,350)	—	(10,350)
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	9,440	—	—	—	9,440	—	9,440
Designated derivatives, fair value adjustment	—	—	—	—	—	(4,562)	—	—	—	(4,562)	—	(4,562)
Distributions on common stock	—	—	—	—	—	—	—	(25,616)	(4,663)	(30,279)	—	(30,279)
Balance, December 31, 2019	31,880,594	\$ 32	\$ —	\$ 5	\$ 1,085,041	\$ 1,821	\$ —	\$ (530,501)	\$ —	\$ 556,398	\$ —	\$ 556,398

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 35,966	\$ 27,427	\$ 33,341
Net loss (income) from discontinued operations, net of tax	251	(121)	14,116
Net income from continuing operations	36,217	27,306	47,457
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operating activities:			
Provision for (recovery of) loan and lease losses, net	58	(1,595)	1,772
Depreciation, amortization and accretion	3,399	2,908	3,150
Amortization of stock-based compensation	2,212	2,717	2,738
Deferred income tax (benefit) expense	—	(27)	4,763
Sale of and principal payments on syndicated corporate loans held for sale	43	102	1,471
Sale of and principal payments on investment securities, trading	—	241	4,493
Net realized and unrealized (gain) loss on investment securities, trading	—	(53)	954
Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives	(4)	(639)	(18,334)
Fair value adjustments on financial assets held for sale	4,682	7,176	1,831
Loss on extinguishment of debt	—	—	10,365
Impairment losses	—	934	177
Equity in earnings of unconsolidated entities	—	(217)	(39,545)
Return on investment from investments in unconsolidated entities	—	411	50,046
Changes in operating assets and liabilities:			
Decrease (increase) in accrued interest receivable, net of purchased interest	353	(1,196)	170
(Decrease) increase in management fee payable	(85)	(97)	881
(Decrease) increase in accounts payable and other liabilities	(4,160)	52	750
Increase (decrease) in accrued interest payable	185	(163)	(592)
Decrease in other assets	492	9,843	2,932
Net cash provided by continuing operating activities	43,392	47,703	75,479
Net cash (used in) provided by discontinued operating activities	(59)	505	146,931
Net cash provided by operating activities	43,333	48,208	222,410
CASH FLOWS FROM INVESTING ACTIVITIES:			
Origination and purchase of loans	(918,917)	(826,155)	(555,359)
Principal payments received on loans and leases	695,409	631,597	610,536
Proceeds from sale of loans	—	16,709	—
Purchase of investment securities available-for-sale	(146,627)	(242,557)	(172,081)
Principal payments on investment securities available-for-sale	56,295	21,055	56,715
Proceeds from sale of investment securities available-for-sale	638	12,081	40,048
Acquisition of the remaining interest in Life Care Funding, LLC	—	—	(5)
Return of capital from unconsolidated entities	—	10,374	48,603
Proceeds from the sale of an investment in an unconsolidated entity	—	—	16,159
Settlement of derivative instruments	—	(46)	(1,491)
Net cash (used in) provided by continuing investing activities	(313,202)	(376,942)	43,125
Net cash provided by discontinued investing activities	135	29,712	19,070
Net cash (used in) provided by investing activities	(313,067)	(347,230)	62,195
CASH FLOWS FROM FINANCING ACTIVITIES:			
Retirement of common stock	—	(69)	(149)
Repurchase of preferred stock	—	(165,340)	—

The accompanying notes are an integral part of these statements

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(in thousands)

	Years Ended December 31,		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES - (Continued):			
Proceeds from borrowings:			
Repurchase agreements	\$ 913,865	\$ 939,902	\$ 387,480
Securitizations	575,811	397,452	251,449
Convertible senior notes	—	—	121,589
Payments on borrowings:			
Repurchase agreements	(847,334)	(563,415)	(362,598)
Securitizations	(329,717)	(311,701)	(317,021)
Convertible senior notes	—	(70,453)	(108,690)
Payment of debt issuance costs	(6,529)	(10,531)	(8,278)
Settlement of derivative instruments	—	643	—
Distribution paid on subordinated note	—	(31)	—
Distributions paid on preferred stock	(10,350)	(15,257)	(24,057)
Distributions paid on common stock	(27,052)	(11,068)	(6,252)
Net cash provided by (used in) continuing financing activities	268,694	190,132	(66,527)
Net cash used in discontinued financing activities	—	—	(133,139)
Net cash provided by (used in) financing activities	268,694	190,132	(199,666)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(1,040)	(108,890)	84,939
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	95,474	204,364	119,425
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 94,434	\$ 95,474	\$ 204,364
SUPPLEMENTAL DISCLOSURE:			
Interest expense paid in cash	\$ 73,963	\$ 57,548	\$ 48,902
Income taxes paid in cash	\$ —	\$ —	\$ 517

The accompanying notes are an integral part of these statements

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - ORGANIZATION

Exantas Capital Corp., a Maryland corporation, along with its subsidiaries (collectively, the “Company”) is a real estate investment trust (“REIT”) that is primarily focused on originating, holding and managing commercial real estate (“CRE”) mortgage loans and other commercial real estate-related debt investments. The Company is externally managed by Exantas Capital Manager Inc. (the “Manager”), which is an indirect wholly-owned subsidiary of C-III Capital Partners LLC (“C-III”), a leading commercial real estate investment management and services company engaged in a broad range of activities. C-III is the beneficial owner of approximately 2.4% of the Company’s outstanding common stock at December 31, 2019.

The Company has qualified, and expects to qualify in the current fiscal year, as a REIT.

In November 2016, the Company’s board of directors (the “Board”) approved the strategic plan (the “Plan”) to focus its strategy on CRE debt investments. The Plan contemplated disposing of certain loans underwritten prior to 2010 (“legacy CRE loans”), exiting underperforming non-core asset classes and businesses and maintaining a dividend policy based on sustainable earnings. The Company’s residential mortgage and middle market lending segments’ assets and liabilities were classified as held for sale and its operations were reported as discontinued operations and have been excluded from continuing operations. The Company has substantially completed the execution of the Plan. See Note 23 for further discussion.

The Company conducts its operations through the use of subsidiaries that it consolidates into its financial statements. The Company’s core assets are consolidated through its investment in RCC Real Estate, Inc. (“RCC RE”), a wholly-owned subsidiary that holds CRE loans, CRE-related securities and investments in CRE securitizations, which are consolidated as VIEs, as discussed in Note 3.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of the Company, majority-owned or controlled subsidiaries and VIEs for which the Company is considered the primary beneficiary. All inter-company transactions and balances have been eliminated in consolidation.

Variable Interest Entities

A VIE is defined as an entity in which equity investors (i) do not have a controlling financial interest and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (a) has the power to control the activities that most significantly impact the VIE’s economic performance and (b) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company considers the following criteria in determining whether an entity is a VIE:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest.
 - a. The direct ability to make decisions about the entity’s activities through voting rights or similar rights.
 - b. The obligation to absorb the expected losses of the entity.
 - c. The right to receive the expected residual returns of the entity. The equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2019

In determining whether the Company is the primary beneficiary of a VIE, the Company reviews governing contracts, formation documents and any other contractual arrangements for any relevant terms and determines the activities that have the most significant impact on the VIE and who has the power to direct those activities. The Company also looks for kick-out rights, protective rights and participating rights as well as any financial or other support provided to the VIE and the reason for that support, and the terms of any explicit or implicit arrangements that may require the Company to provide future support. The Company then makes a determination based on its power to direct the most significant activities of the VIE and/or a financial interest that is potentially significant. In instances when a VIE is owned by both the Company and related parties, the Company considers whether there is a single party in the related party group that meets both the power and losses or benefits criteria on its own as though no related party relationship existed. If one party within the related party group meets both these criteria, such reporting entity is the primary beneficiary of the VIE and no further analysis is needed. If no party within the related party group on its own meets both the power and losses or benefits criteria, but the related party group as a whole meets these two criteria, the determination of primary beneficiary within the related party group is based upon an analysis of the facts and circumstances with the objective of determining which party is most closely associated with the VIE. Determining the primary beneficiary requires significant judgment. The Company continuously analyzes entities in which it holds variable interests, including when there is a reconsideration event, to determine whether such entities are VIEs and whether such potential VIEs should be consolidated or deconsolidated.

Voting Interest Entities

A voting interest entity is an entity in which the total equity investment at risk is sufficient to enable it to finance its activities independently and the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the Company has a majority voting interest in a voting interest entity, the entity will generally be consolidated. The Company does not consolidate a voting interest entity if there are substantive participating rights by other parties and/or kick-out rights by a single party or through a simple majority vote.

The Company performs on-going reassessments of whether entities previously evaluated under the voting interest framework have become VIEs, based on certain events, and therefore subject to the VIE consolidation framework.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the financial results. Actual results could differ from those estimates. Estimates affecting the accompanying consolidated financial statements include but are not limited to the net realizable and fair values of the Company's investments and derivatives, the estimated life used on investments to calculate depreciation, amortization and accretion of premiums and discounts, respectively, provisions for loan losses, valuation of servicing assets and the disclosure of contingent liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less at the time of purchase. At December 31, 2019 and 2018, approximately \$77.6 million and \$80.4 million, respectively, of the reported cash balances exceeded the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation deposit insurance limits of \$250,000 per respective depository or brokerage institution. However, all of the Company's cash deposits are held at multiple, established financial institutions, in multiple accounts associated with its parent and respective consolidated subsidiaries, to minimize credit risk exposure.

Restricted cash includes required account balance minimums primarily for the Company's CRE debt securitizations and derivative instruments as well as cash held in the syndicated corporate loan collateralized debt obligations ("CDOs").

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2019

The following table provides a reconciliation of cash, cash equivalents and restricted cash on the consolidated balance sheets to the total amount shown on the consolidated statements of cash flows (in thousands):

	December 31,	
	2019	2018
Cash and cash equivalents	\$ 79,958	\$ 82,816
Restricted cash	14,476	12,658
Total cash, cash equivalents and restricted cash shown on the Company's consolidated statements of cash flows	<u>\$ 94,434</u>	<u>\$ 95,474</u>

Investment in Unconsolidated Entities

The Company's non-controlling investments in unconsolidated entities are included in investments in unconsolidated entities on the consolidated balance sheets and may be accounted for under the equity method or the cost method.

Under the equity method, capital contributions, distributions, profits and losses of the entities are allocated in accordance with the terms of the entities' operating agreements. Such allocations may differ from the stated percentage interests, if any, as a result of preferred returns and allocation formulas as described in the entities' operating agreements. For non-controlling investments in unconsolidated entities qualifying for equity method treatment with substantive profit-sharing arrangements, the hypothetical liquidation at book value ("HLBV") method may be used for recognizing earnings. Under the HLBV method, earnings are calculated and recognized based on the change in how the unconsolidated entity would allocate and distribute its cash if it were to liquidate the carrying value of its assets and liabilities on the beginning and end dates of the earnings period; excluding contributions made or distributions received.

The Company may account for an investment that does not qualify for equity method accounting using the cost method. Under the cost method, the Company records dividend income when declared to the extent it is not considered a return of capital, which is recorded as a reduction of the cost of the investment.

Investment Securities

The Company classifies its investment portfolio as trading or available-for-sale. The Company, from time to time, may sell any of its investments due to changes in market conditions or in accordance with its investment strategy.

The Company reports its investment securities available-for-sale and historically has reported its investment securities, trading at fair value. To determine fair value, the Company uses an independent third-party valuation firm utilizing data available in the market as well as appropriate prepayment, default and recovery rates. The Company evaluates the reasonableness of the valuation it receives by using a dealer quote, bid, or internal model. If there is a material difference between the value indicated by the third-party valuation firm and the dealer quote, bid or internal model, the Company will evaluate the difference, which could result in an updated valuation from the third-party or a revised dealer quote. Based on a prioritization of inputs used in the valuation of each position, the Company categorizes these investments as either Level 2 or Level 3 in the fair value hierarchy. Historically, any changes in fair value to the Company's investment securities, trading were recorded on the Company's consolidated statements of operations as net realized and unrealized gain (loss) on investment securities, trading. Any changes in fair value to the Company's investment securities available-for-sale are recorded on the Company's consolidated balance sheets as a component of accumulated other comprehensive income (loss) in stockholders' equity.

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2019

On a quarterly basis, the Company evaluates its available-for-sale securities for other-than-temporary impairment. An available-for-sale security is impaired when its fair value has declined below its amortized cost basis. When the estimated fair value of an available-for-sale security is less than amortized cost, the Company will consider whether there is an other-than-temporary impairment in the value of the security. An impairment will be considered other-than-temporary based on consideration of several factors, including (i) if the Company intends to sell the security, (ii) if it is more likely than not that the Company will be required to sell the security before recovering its cost, or (iii) the Company does not expect to recover the security's cost basis (i.e., a credit loss). A credit loss will have occurred if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis. If the Company intends to sell an impaired debt security or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the impairment is other-than-temporary and will be recognized currently in earnings and equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Company does not intend nor is it more likely than not that it will be required to sell before recovery, the impairment is other-than-temporary and will be separated into (i) the estimated amount relating to the credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss recognized in other comprehensive income. Estimating cash flows and determining whether there is other-than-temporary impairment require management to exercise judgment and make significant assumptions, including, but not limited to, assumptions regarding estimated prepayments, loss assumptions and assumptions regarding changes in interest rates. As a result, actual impairment losses, and the timing of income recognized on these securities, could differ from reported amounts.

Investment security transactions are recorded on the trade date. Realized gains and losses on investment securities are determined on the specific identification method.

Investment Security Interest Income Recognition

Interest income on the Company's mortgage-backed securities ("MBS") and other asset-backed securities ("ABS") is accrued using the effective yield method based on the actual coupon rate and the outstanding principal amount of the underlying mortgages or other assets. Premiums and discounts are amortized or accreted into interest income over the expected lives of the securities also using the effective yield method, adjusted for the effects of estimated prepayments. For an investment purchased at par, the effective yield is the contractual interest rate on the investment. If the investment is purchased at a discount or at a premium, the effective yield is computed based on the contractual interest rate increased for the accretion of a purchase discount or decreased for the amortization of a purchase premium. The effective yield method requires the Company to make estimates of future prepayment rates for its investments that can be contractually prepaid before their contractual maturity date so that the purchase discount can be accreted, or the purchase premium can be amortized, over the estimated remaining life of the investment. The prepayment estimates that the Company uses directly impact the estimated remaining lives of its investments. Actual prepayment estimates are reviewed at each quarter end or more frequently if the Company becomes aware of any material information that would lead it to believe that an adjustment is necessary. For MBS and other ABS that are not of high credit quality or can be prepaid in such a way that the Company would not recover substantially all of its initial investment, changes in the original or most recent cash flow projections may result in a prospective change in interest income recognized. For MBS and other ABS that are of high credit quality, changes in the original or most recent cash flow projections may result in an immediate cumulative adjustment in interest income recognized.

Loans

The Company acquires loans through direct origination, through the acquisition of participations in CRE loans and had historically acquired corporate leveraged loans in the secondary market and through syndications of newly originated loans. Loans are held for investment; therefore, the Company initially records them at their acquisition price, and subsequently, accounts for them based on their outstanding principal plus or minus unamortized premiums or discounts. The Company may sell a loan held for investment where the credit fundamentals underlying a particular loan have changed in such a manner that the Company's expected return on investment may decrease. Once the determination has been made by the Company that it no longer will hold the loan for investment, the Company identifies these loans as loans held for sale. Any credit-related impairment considerations prior to the transfer to loans held for sale are accounted for through the allowance for loan losses on the Company's consolidated balance sheets. At December 31, 2018, the Company has disclosed a certain legacy CRE loan in assets held for sale on its consolidated balance sheets. The remaining legacy CRE loan, which was foreclosed upon, remains held for sale at December 31, 2019. See Note 23 for further discussion.

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The Company reports its loans held for sale at the lower of amortized cost or fair value. To determine fair value, the Company primarily uses appraisals obtained from third-parties as a practical expedient. Key assumptions used in those appraisals are reviewed by the Company. If there is a material difference between the value provided by the appraiser and information used by the Company to validate the appraisal, the Company will evaluate the difference with the appraiser, which could result in an updated appraisal. The Company may also use the present value of estimated cash flows, market price, if available, or other determinants of the fair value of the collateral less estimated disposition costs. Any determined changes in the fair value of loans held for sale are recorded in fair value adjustments on financial assets held for sale on the Company's consolidated statements of operations. Based on a prioritization of inputs used in the valuation of each position, the Company categorizes these investments as either Level 2 or Level 3 in the fair value hierarchy.

Loan Interest Income Recognition

Interest income on loans includes interest at stated rates adjusted for amortization or accretion of premiums and discounts based on the contractual payment terms of the loan. Premiums and discounts are amortized or accreted into income using the effective yield method. If a loan with a premium or discount is prepaid, the Company immediately recognizes the unamortized portion as a decrease or increase to interest income. In addition, the Company defers loan origination and extension fees and loan origination costs and recognizes them over the life of the related loan against interest income using the straight line method, which approximates the effective yield method. Income recognition is suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of principal and income becomes doubtful. When the ultimate collectability of the principal is in doubt, all payments received are applied to principal under the cost recovery method. On the other hand, when the ultimate collectability of the principal is not in doubt, contractual interest is recorded as interest income when received, under the cash method, until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged.

Preferred Equity Investment

Preferred equity investments, which are subordinate to any loans but senior to common equity, depending on the investment's characteristics, may be accounted for as real estate, joint ventures or as mortgage loans. The Company's preferred equity investments are accounted for as CRE loans held for investment, are carried at cost, net of unamortized loan fees and origination costs, and are included within CRE loans on the Company's consolidated balance sheets. The Company accretes or amortizes any discounts or premiums over the life of the related loan utilizing the effective interest method. Interest and fees are recognized as income subject to recoverability, which is substantiated by obtaining annual appraisals on the underlying property.

Allowance for Loan Losses

The Company maintains an allowance for loan loss on its loans held for investment. CRE loans that are held for investment are carried at cost, net of unamortized acquisition premiums or discounts, loan fees and origination costs as applicable, unless the loans are deemed impaired. The Company evaluates each loan classified as held for investment for impairment at least quarterly. In connection with this evaluation, the Company assesses the performance of each loan and assigns a risk rating based on the collective evaluation of several factors, including but not limited to: collateral performance relative to underwritten plan, time since origination, current implied and/or reunderwritten loan-to-collateral value ("LTV") ratios, risk inherent in the loan structure and exit plan. Loans are rated "1" through "5," from less risk to greatest risk, in connection with this review. Loans with a risk rating of "5" are individually measured for impairment on a quarterly basis.

The general reserve, established for loans not determined to be impaired individually, is based on the Company's loan risk ratings. The Company records a general reserve equal to 1.5% of the aggregate face values of loans with a risk rating of "3," plus 5.0% of the aggregate face values of loans with a risk rating of "4."

The Company considers a loan to be impaired if at least one of two conditions exists. The first condition is if, based on the Company's evaluation as part of the loan risk rating process, management believes that a loss event has occurred that makes it probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The second condition is if the loan is deemed to be a troubled-debt restructuring ("TDR") where a concession has been given to a borrower in financial difficulty. These TDRs may not have an associated specific loan loss allowance if the principal and interest amount is considered recoverable based on current market conditions, appraisals of the underlying collateral, expected collateral performance and/or guarantees made by the borrowers.

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When a loan is impaired under either of these two conditions, the allowance for loan losses is increased by the amount of the excess of the amortized cost basis of the loan over its fair value. Fair value may be determined based on the present value of estimated cash flows; or market price, if available; or on the fair value of the collateral less estimated disposition costs. When a loan, or a portion thereof, is considered uncollectible and pursuit of collection is not warranted, the Company will record a charge-off or write-down of the loan against the allowance for loan losses.

An impaired loan may remain on accrual status during the period in which the Company is pursuing repayment of the loan; however, the loan would be placed on non-accrual status at such time as (i) management believes that scheduled debt service payments will not be met within the coming 12 months; (ii) the loan becomes 90 days past due; (iii) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment; or (iv) the net realizable value of the loan's underlying collateral approximates the Company's carrying value for such loan. While on non-accrual status, the Company recognizes interest income only when an actual payment is received if a credit analysis supports the borrower's principal repayment capacity. When a loan is placed on non-accrual, previously accrued interest is reversed from interest income.

Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays or payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is re-measured on a quarterly basis by comparing the fair value of the loan to its cost basis. The fair value is determined using unobservable inputs including estimates of selling costs (Level 3).

Assets and Liabilities Held for Sale

The Company classifies long-lived assets or a disposal group to be sold as held for sale in the period in which all of the following criteria are met:

- management, having the authority to approve the action, commits to a plan to sell the asset or the disposal group;
- the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
- an active program to locate a buyer and other actions required to complete the plan to sell the asset or disposal group have been initiated;
- the sale of the asset or disposal group is probable, and transfer of the asset or disposal group is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond the Company's control extend the period of time required to sell the asset or disposal group beyond one year;
- the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A long-lived asset or disposal group that is classified as held for sale is initially measured at the lower of its cost or fair value less any costs to sell. Any loss resulting from the transfer of long-lived assets or disposal groups to assets held for sale is recognized in the period in which the held for sale criteria are met. Legacy CRE loans included as assets held for sale were measured at the lower of cost or fair value on the date the legacy CRE loans were transferred to assets held for sale. Any specific loan loss reserves for legacy CRE loans transferred to assets held for sale were measured and charged off on the date of transfer, establishing a new cost basis for the loans.

The fair values of assets held for sale are assessed each reporting period and changes in such fair values are reported as an adjustment to the carrying value of the asset or disposal group with an offset to fair value adjustments on financial assets held for sale on the Company's consolidated statements of operations, to the extent that any subsequent changes in fair value do not exceed the cost basis of the asset or disposal group.

Additionally, upon determining that a long-lived asset or disposal group meets the criteria to be classified as held for sale, the Company reports the assets and liabilities of the disposal group, if material, in the line items assets or liabilities held for sale, respectively, on the consolidated balance sheets. See Note 23.

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Discontinued Operations

The results of operations of a component or a group of components of the Company that either has been disposed of or is classified as held for sale is reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results.

Comprehensive Income (Loss)

Comprehensive income (loss) for the Company includes net income and the change in net unrealized gains (losses) on available-for-sale securities, derivative instruments used to hedge exposure to interest rate fluctuations and, historically, to protect against declines in the market value of assets resulting from general market.

Income Taxes

The Company operates in such a manner as to qualify as a REIT under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"); therefore, applicable REIT taxable income is included in the taxable income of its shareholders, to the extent distributed by the Company. To maintain REIT status for federal income tax purposes, the Company is generally required to distribute at least 90% of its REIT taxable income to its shareholders as well as comply with certain other qualification requirements as defined under the Code. As a REIT, the Company is not subject to federal corporate income tax to the extent that it distributes 100% of its REIT taxable income each year.

Taxable income, from non-REIT activities managed through the Company's taxable REIT subsidiaries ("TRSs"), are subject to federal, state and local income taxes. The Company's TRS' income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred income taxes are recognized for the temporary differences between the financial reporting basis and tax basis of assets and liabilities. The Company evaluates the realizability of its deferred tax assets and liabilities and recognizes a valuation allowance if, based on available evidence, it is more likely than not that some or all of its deferred tax assets will not be realized. In evaluating the realizability of the deferred tax asset or liability, the Company will consider the expected future taxable income, existing and projected book to tax differences as well as tax planning strategies. This analysis is inherently subjective, as it is based on forecasted earning and business and economic activity. Changes in estimates of deferred tax asset realizability, if any, are included in income tax (expense) benefit on the consolidated statements of operations.

In addition, several of the Company's foreign TRSs, are organized as exempted companies incorporated with limited liability under the laws of the Cayman Islands. The Company also has TRSs incorporated in Ireland, which are generally exempt from federal and state income tax at the corporate level because their activities in the United States are limited to trading in stock and securities for their own account. Therefore, despite their status as TRSs, they generally will not be subject to corporate tax on their earnings and no provision for income taxes is required. However, because they are either controlled foreign corporations or passive foreign investment companies (in which the Company has made a Qualified Electing Fund election), the Company will generally be required to include its share of current taxable income from the foreign TRSs in its calculation of REIT taxable income.

The Company accounts for taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction (e.g., sales, use, value added) on a net (excluded from revenue) basis.

The Company established a full valuation allowance against its net deferred tax asset of approximately \$32.9 million (tax effected \$9.9 million) at December 31, 2019 as the Company believed it was more likely than not that some or all of the deferred tax assets would not be realized. This assessment was based on the Company's cumulative historical losses and uncertainties as to the amount of taxable income that would be generated in future years.

The Company evaluates and recognizes tax positions only if it is more likely than not that the position will be sustained upon examination by the appropriate taxing authority. A tax position that meets this threshold is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company classifies any tax penalties as other operating expenses and any interest as interest expense. The Company does not have any unrecognized tax benefits that would affect the Company's financial position.

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U.S. Tax Cuts and Jobs Act

In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (“TCJA”). The TCJA makes broad and complex changes to the Code, including, but not limited to: (i) reducing the U.S. federal corporate tax rate from 35% to 21%; (ii) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (iii) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (iv) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (v) eliminating the corporate alternative minimum tax (“AMT”) and changing how existing AMT credits can be realized; (vi) creating the base erosion anti-abuse tax, a new minimum tax; (vii) creating a new limitation on deductible interest expense; and (viii) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The SEC staff issued guidance which provides insight on accounting for the tax effects of the TCJA. The guidance provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting under Financial Accounting Standards Board (“FASB”) guidance. In accordance with the SEC guidance, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under the FASB guidance is complete. To the extent that a company’s accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply the FASB guidance on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA.

In 2018, the Company completed its analysis of the provisions items of the TCJA under the SEC guidance, resulting in immaterial adjustments primarily related to cumulative temporary differences.

Stock Based Compensation

Issuances of restricted stock and options are initially measured at fair value on the grant date and expensed monthly on a straight-line basis over the service period to equity compensation expense on the consolidated statements of operations, with a corresponding entry to additional paid-in capital on the consolidated balance sheets. Effective January 1, 2019, in accordance with updated guidance under GAAP, the fair value of all unvested issuances of restricted stock and options is not remeasured after the initial grant date. Previously, the Company adjusted unvested issuances of restricted stock and options to the Manager and to non-employees quarterly to reflect changes in fair value.

Net Income (Loss) Per Share

The Company calculates basic income per share by dividing net income for the period by the weighted average number of shares of its common stock, including vested restricted stock and participating securities, outstanding for that period. Diluted income per share takes into account the effect of dilutive investments, such as stock options, unvested restricted stock and convertible notes, but uses the treasury stock method or average share price for the period in determining the number of incremental shares that are to be added to the weighted average number of shares outstanding.

Derivative Instruments

The Company’s policies permit it to enter into derivative contracts, including interest rate swaps and interest rate caps, to add stability to its interest expense and to manage its exposure to interest rate movements or other identified risks. The Company has designated these transactions as cash flow hedges. The contracts or hedge instruments are evaluated at inception and at subsequent consolidated balance sheet dates to determine if they qualify for hedge accounting, which requires that the Company recognize all derivatives on the consolidated balance sheets at fair value. The Company records changes in the estimated fair value of the derivative in other comprehensive income to the extent that it is effective. Any ineffective portion of a derivative’s change in fair value is immediately recognized in earnings.

The Company may also enter into forward currency contracts. Forward contracts represent future commitments to either purchase or to deliver loans, securities or a quantity of a currency at a predetermined future date, at a predetermined rate or price and are used to manage interest rate risk on loan commitments and mortgage loans held for sale as well as currency risk with respect to the Company’s long positions in foreign currency-denominated investment securities.

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Derivative assets and liabilities, are reported at fair value, and are valued by a third-party pricing agent using an income approach with models that use, as their primary inputs, readily observable market parameters. This valuation process considers factors including interest rate yield curves, time value, credit factors and volatility factors. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company assesses the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and, if material, categorizes those derivatives within Level 3 of the fair value hierarchy.

Fair Value Measurements

In analyzing the fair value of its investments accounted for on a fair value basis, the Company uses the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company determines fair value based on quoted prices when available or, if quoted prices are not available, through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. The hierarchy defines three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value inputs are observable.

Level 3 - 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.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter; depending on various factors, it is possible that an asset or liability may be classified differently from quarter to quarter. Transfers between levels are determined by the Company at the end of the reporting period. However, the Company expects that changes in classifications between levels will be rare. Assets or liabilities that are both designated for sale or disposition and reported as discontinued operations are disclosed in Note 23.

Recent Accounting Standards

Accounting Standards Adopted in 2019

In June 2018, the FASB issued guidance to simplify the accounting for share-based payment transactions for acquiring goods and services from non-employees by including these payments in the scope of the guidance for share-based payments to employees. In accordance with the guidance, the Company's unvested issuances to the Manager and to non-employees granted prior to the January 1, 2019 adoption date were remeasured at fair value as of the adoption date with no subsequent remeasurement. Unvested issuances will continue to be amortized on a straight-line basis over the service period. Adoption did not have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued guidance to allow a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the TCJA. Adoption did not have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities. Additionally, the guidance simplifies the application of the hedge accounting guidance via certain targeted improvements. In October 2018, the FASB updated the guidance to add a benchmark interest rate permitted for hedge accounting purposes. Adoption did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued guidance requiring lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. The guidance requires new qualitative and quantitative disclosures to help financial statement users better understand the timing, amount and uncertainty of cash flows arising from leases. Adoption did not have a material impact on the Company's consolidated financial statements.

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Accounting Standards to be Adopted in Future Periods

In August 2018, the FASB issued guidance to modify the fair value measurement disclosure requirements, including: disclosures on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, the policy for timing of transfers between levels and the narrative description of measurement uncertainty. The guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period. The Company is in the process of evaluating the impact of this new guidance.

In January 2017, the FASB issued guidance to add the Securities and Exchange Commission (“SEC”) Staff Announcement “Disclosure of the Impact that Recently Issued Accounting Standards will have on the Financial Statements of a Registrant when such Standards are Adopted in a Future Period (in accordance with Staff Accounting Bulletin Topic 11.M).” The announcement applies to the May 2014 guidance on revenue recognition from contracts with customers, the February 2016 guidance on leases and the June 2016 guidance on how credit losses for financial assets at amortized cost and certain other instruments that are measured at fair value through net income are determined. The announcement provides the SEC staff view that a registrant should evaluate certain recent accounting standards that have not yet been adopted to determine appropriate financial statement disclosures about the potential material effects of those recent accounting standards. If a registrant does not know or cannot reasonably estimate the impact that adoption of the recent accounting standards referenced in this announcement is expected to have on the financial statements, then the registrant should make a statement to that effect and consider the additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the recent accounting standards will have on the financial statements of the registrant when adopted. The Company completed its assessment under the new guidance on revenue recognition from contracts with customers in 2018 and on leases, see “Accounting Standards Adopted in 2019.” While the Company is currently evaluating the impact of the guidance on the measurement of credit losses on financial instruments, the Company expects this standard will impact the consolidated financial statements, as described below.

In June 2016, the FASB issued guidance that will change how credit losses for most financial assets and certain other instruments that are measured at fair value through net income are determined. The new guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. For available-for-sale debt securities, the guidance requires recording allowances rather than reducing the carrying amount, as the Company is currently under the other-than-temporary impairment model. It also simplifies the accounting model for credit-impaired debt securities and loans. In November 2018, the FASB issued amendments to the guidance, including the clarification that operating leases are excluded from the scope of the guidance. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period.

The new guidance gives an entity flexibility to select an appropriate method to measure the estimate for expected credit losses, provided that such estimates be based on relevant information about past events, including historical losses, current portfolio and market conditions, and reasonable and supportable forecasts for the duration of each asset that are applied consistently over time. The Company engaged a third-party advisor to assist in the implementation of the new guidance and provide a modeling software and market loan loss database. The Company expects to utilize a probability of default and loss given default methodology over a reasonable and supportable forecast period, after which it will revert immediately to its historical mean loss ratio, utilizing a blended approach sourced from its own historical losses and the market losses from the third party’s database, to be applied for the remaining estimable period.

The expected loss model requires the Company to make significant judgements, including: (i) the selection of a reasonable and supportable forecast period, (ii) projections for the amounts and timing of future fundings of committed balances and prepayments on CRE investments, (iii) the determination of the risk characteristics in which to pool financial assets, and (iv) the appropriate historical loss data to utilize in the model. The Company expects to utilize a one year reasonable and supportable forecast period in which it will apply the probability of default and loss given default methodology. CRE loans will be pooled based on the underlying property type collateralizing the respective loans. The Company expects to utilize its full, 13 year underwriting history in the determination of historical losses, along with the market loss history of a selected population of loans from the third party’s database that were similar to its loan types, loan sizes, durations, interest rate structure and general LTV profiles.

Upon adoption on January 1, 2020, the Company expects to record an initial current expected credit losses (“CECL”) reserve of approximately \$4.5 million, of which \$3.0 million, or \$0.10 per share, will be recorded as a charge to retained earnings. The estimated CECL reserve represents 0.25% of the aggregate outstanding principal balance of the Company’s \$1.8 billion commercial loan portfolio at December 31, 2019. Subsequent increases and decreases in expected credit losses will be recorded in the Company’s consolidated statement of operations.

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Reclassifications

Certain reclassifications have been made to the 2018 and 2017 consolidated financial statements to conform to the 2019 presentation. These reclassifications had no effect on the previously reported net cash provided by financing activities in the consolidated statements of cash flows.

NOTE 3 - VARIABLE INTEREST ENTITIES

The Company has evaluated its securities, loans, investments in unconsolidated entities, liabilities to subsidiary trusts issuing preferred securities (consisting of unsecured junior subordinated notes), securitizations, guarantees and other financial contracts in order to determine if they are variable interests in VIEs. The Company regularly monitors these legal interests and contracts and, to the extent it has determined that it has a variable interest, analyzes the related entity for potential consolidation.

Consolidated VIEs (the Company is the primary beneficiary)

Based on management's analysis, the Company was the primary beneficiary of five VIEs at each of December 31, 2019 and 2018 (for each period, collectively, the "Consolidated VIEs").

The Consolidated VIEs are CRE securitizations, CDOs and CLOs that were formed on behalf of the Company to invest in real estate-related securities, commercial mortgage-backed securities ("CMBS"), syndicated corporate loans, corporate bonds and ABS and were financed by the issuance of debt securities. The Manager, historically with the help of C-III Asset Management LLC ("C3AM"), a former subsidiary of C-III that was sold in December 2019 (see Note 16), manages the CRE-related entities. By financing these assets with long-term borrowings through the issuance of debt securities, the Company seeks to generate attractive risk-adjusted equity returns and to match the term of its assets and liabilities. The primary beneficiary determination for each of these VIEs was made at each VIE's inception and is continually assessed.

The Company has exposure to losses on its securitizations to the extent of its investments in the subordinated debt and preferred equity of each securitization. The Company is entitled to receive payments of principal and interest on the debt securities it holds and, to the extent revenues exceed debt service requirements and other expenses of the securitizations, distributions with respect to its preferred equity interests. As a result of consolidation, the debt and equity interests the Company holds in these securitizations have been eliminated, and the Company's consolidated balance sheets reflect the assets held, debt issued by the securitizations to third parties and any accrued payables to third parties. The Company's operating results and cash flows include the gross amounts related to the securitizations' assets and liabilities as opposed to the Company's net economic interests in the securitizations. Assets and liabilities related to the securitizations are disclosed, in the aggregate, on the Company's consolidated balance sheets. For a discussion of the debt issued through the securitizations see Note 10.

Creditors of the Company's Consolidated VIEs have no recourse to the general credit of the Company, nor to each other. During the years ended December 31, 2019, 2018 and 2017, the Company did not provide any financial support to any of its VIEs nor does it have any requirement to do so, although it may choose to do so in the future to maximize future cash flows on such investments by the Company. There are no explicit arrangements that obligate the Company to provide financial support to any of its Consolidated VIEs.

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The following table shows the classification and carrying values of assets and liabilities of the Company's Consolidated VIEs at December 31, 2019 (in thousands):

	CRE Securizations	Other	Total
ASSETS			
Restricted cash	\$ —	\$ 532	\$ 532
Accrued interest receivable	3,780	—	3,780
CRE loans, pledged as collateral ⁽¹⁾	957,045	—	957,045
Principal paydowns receivable	19,239	—	19,239
Other assets	25	—	25
Total assets ⁽²⁾	<u>\$ 980,089</u>	<u>\$ 532</u>	<u>\$ 980,621</u>
LIABILITIES			
Accounts payable and other liabilities	\$ 175	\$ —	\$ 175
Accrued interest payable	897	—	897
Borrowings	746,439	—	746,439
Total liabilities	<u>\$ 747,511</u>	<u>\$ —</u>	<u>\$ 747,511</u>

(1) Excludes allowance for loan losses.

(2) Assets of each of the Consolidated VIEs may only be used to settle the obligations of each respective VIE.

Unconsolidated VIEs (the Company is not the primary beneficiary, but has a variable interest)

Based on management's analysis, the Company is not the primary beneficiary of the VIEs discussed below since it does not have both (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. Accordingly, the following VIEs are not consolidated in the Company's financial statements at December 31, 2019. The Company continuously reassesses whether it is deemed to be the primary beneficiary of its unconsolidated VIEs. The Company's maximum exposure to risk for each of these unconsolidated VIEs is set forth in the "Maximum Exposure to Loss" column in the table below.

Unsecured Junior Subordinated Debentures

The Company has a 100% interest in the common shares of Resource Capital Trust I ("RCT I") and RCC Trust II ("RCT II"), respectively, with a value of \$1.5 million in the aggregate, or 3.0% of each trust, at December 31, 2019. RCT I and RCT II were formed for the purposes of providing debt financing to the Company. The Company completed a qualitative analysis to determine whether or not it is the primary beneficiary of each of the trusts and determined that it was not the primary beneficiary of either trust because it does not have the power to direct the activities most significant to the trusts, which include the collection of principal and interest through servicing rights. Accordingly, neither trust is consolidated into the Company's consolidated financial statements.

The Company records its investments in RCT I and RCT II's common shares of \$774,000 each as investments in unconsolidated entities using the cost method, recording dividend income when declared by RCT I and RCT II. The trusts each hold subordinated debentures, for which the Company is the obligor, in the amount of \$25.8 million for each of RCT I and RCT II. The debentures were funded by the issuance of trust preferred securities of RCT I and RCT II.

Wells Fargo Commercial Mortgage Trust 2017-C40

In October 2017, the Company purchased 95% of the Class E, F, G, H and J certificates of Wells Fargo Commercial Mortgage Trust 2017-C40 ("C40"), a B-piece investment in a Wells Fargo Commercial Mortgage Securities, Inc., private-label, \$705.4 million securitization. C40 is managed by C3AM, a former related party sold by C-III in December 2019 that was not under common control. The Company determined that although its investment in C40 represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounted for its various investments in C40 as investment securities available-for-sale on its consolidated financial statements.

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Prospect Hackensack JV LLC

In March 2018, the Company invested \$19.2 million in the preferred equity of Prospect Hackensack JV LLC (“Prospect Hackensack”), a joint venture between the Company and an unrelated third party (“Managing Member”). Prospect Hackensack was formed for the purpose of acquiring and operating a multifamily CRE property. The Managing Member manages the daily operations of the property. The Company determined that although its investment in Prospect Hackensack represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounts for its investment in Prospect Hackensack’s preferred equity as a CRE loan on its consolidated financial statements.

WC Newhall MM, LLC

In June 2019, the Company invested \$5.5 million in the preferred equity of WC Newhall MM, LLC (“Santa Clarita”), a joint venture between the Company and two unrelated third parties (“Sponsor Members”). Santa Clarita was formed for the purpose of refinancing a self-storage CRE property. The Sponsor Members manage the daily operations of the property. The Company determined that although its investment in Santa Clarita represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounts for its investment in Santa Clarita’s preferred equity as a CRE loan on its consolidated financial statements.

The following table shows the classification, carrying value and maximum exposure to loss with respect to the Company’s unconsolidated VIEs at December 31, 2019 (in thousands):

	Unsecured Junior Subordinated Debentures	C40	Prospect Hackensack	Santa Clarita	Total	Maximum Exposure to Loss
ASSETS						
Accrued interest receivable	\$ 159	\$ 178	\$ —	\$ 38	\$ 375	\$ —
CRE loans	—	—	20,407	5,741	26,148	\$ 26,148
Investment securities available-for-sale ⁽¹⁾	—	22,647	—	—	22,647	\$ 22,130
Investments in unconsolidated entities	1,548	—	—	—	1,548	\$ 1,548
Total assets	1,707	22,825	20,407	5,779	50,718	
LIABILITIES						
Accrued interest payable	265	—	—	—	265	N/A
Borrowings	51,548	—	—	—	51,548	N/A
Total liabilities	51,813	—	—	—	51,813	N/A
Net (liability) asset	<u>\$ (50,106)</u>	<u>\$ 22,825</u>	<u>\$ 20,407</u>	<u>\$ 5,779</u>	<u>\$ (1,095)</u>	N/A

(1) The Company’s investment in C40 is carried at fair value and its maximum exposure to loss is the amortized cost of the investment.

At December 31, 2019, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to any of its unconsolidated VIEs.

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes the Company’s supplemental disclosure of cash flow information (in thousands):

	Years Ended December 31,		
	2019	2018	2017
Non-cash continuing financing activities include the following:			
Proceeds from the private exchange of convertible senior notes	\$ —	\$ —	\$ 22,161
Payments on the private exchange of convertible senior notes	\$ —	\$ —	\$ (22,161)
Distributions on common stock accrued but not paid	\$ 8,767	\$ 5,540	\$ 1,571
Distributions on preferred stock accrued but not paid	\$ 1,725	\$ 1,725	\$ 4,010

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NOTE 5 - RESTRICTED CASH

The following table summarizes the Company's restricted cash (in thousands):

	December 31,	
	2019	2018
Restricted cash:		
Cash held by consolidated CRE securitizations, CDOs and CLOs	\$ 532	\$ 6,190
Restricted cash pledged with minimum reserve balance requirements	22	21
Margin posted on interest rate swaps and repurchase agreements	13,922	6,447
Total	<u>\$ 14,476</u>	<u>\$ 12,658</u>

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NOTE 6 - LOANS

The following is a summary of the Company's loans (dollars in thousands, except amounts in footnotes):

Description	Quantity	Principal	Unamortized (Discount) Premium, net ⁽¹⁾	Amortized Cost	Allowance for Loan Losses	Carrying Value	Contractual Interest Rates ⁽²⁾	Maturity Dates ⁽³⁾⁽⁴⁾⁽⁵⁾
At December 31, 2019:								
CRE loans held for investment:								
Whole loans ⁽⁶⁾⁽⁷⁾	112	\$ 1,768,322	\$ (7,725)	\$ 1,760,597	\$ (1,460)	\$ 1,759,137	1M LIBOR plus 2.70% to 1M LIBOR plus 6.25%	January 2020 to October 2023
Mezzanine loan	1	4,700	—	4,700	—	4,700	10.00%	June 2028
Preferred equity investments ⁽⁷⁾⁽⁸⁾⁽⁹⁾	2	26,237	(89)	26,148	—	26,148	11.00% to 11.50%	June 2022 to April 2023
Total CRE loans held for investment		<u>\$ 1,799,259</u>	<u>\$ (7,814)</u>	<u>\$ 1,791,445</u>	<u>\$ (1,460)</u>	<u>\$ 1,789,985</u>		
At December 31, 2018:								
CRE loans held for investment:								
Whole loans ⁽⁶⁾⁽⁷⁾	79	\$ 1,538,759	\$ (9,646)	\$ 1,529,113	\$ (1,401)	\$ 1,527,712	1M LIBOR plus 2.70% to 1M LIBOR plus 6.25%	January 2019 to January 2022
Mezzanine loan	1	4,700	—	4,700	—	4,700	10.00%	June 2028
Preferred equity investment ⁽⁷⁾⁽⁸⁾⁽⁹⁾	1	19,718	(163)	19,555	—	19,555	11.50%	April 2023
Total CRE loans held for investment		<u>\$ 1,563,177</u>	<u>\$ (9,809)</u>	<u>\$ 1,553,368</u>	<u>\$ (1,401)</u>	<u>\$ 1,551,967</u>		

- (1) Amounts include unamortized loan origination fees of \$9.1 million and \$9.6 million and deferred amendment fees of \$72,000 and \$171,000 at December 31, 2019 and 2018, respectively. Additionally, the amounts include unamortized loan acquisition costs of \$1.3 million at December 31, 2019. There were no unamortized loan acquisition costs at December 31, 2018.
- (2) LIBOR refers to the London Interbank Offered Rate.
- (3) Maturity dates exclude contractual extension options, subject to the satisfaction of certain terms, that may be available to the borrowers.
- (4) Maturity dates exclude one whole loan, with an amortized cost of \$11.5 million, in maturity default and performing with respect to debt service due in accordance with a forbearance agreement at December 31, 2019 and 2018.
- (5) Maturity dates include one whole loan with an original maturity date in January 2020 that was granted a six month extension in January 2020.
- (6) Substantially all loans are pledged as collateral under various borrowings at December 31, 2019 and 2018.
- (7) Whole loans had \$98.0 million and \$105.7 million in unfunded loan commitments at December 31, 2019 and 2018, respectively. Preferred equity investments had \$3.0 million in unfunded commitments at December 31, 2019. There were no preferred equity investment unfunded commitments at December 31, 2018. These unfunded loan commitments are advanced as the borrowers formally request additional funding and meet certain benchmarks, as permitted under the loan agreement, and any necessary approvals have been obtained.
- (8) The interest rate on the Company's preferred equity investments each pay at 8.00%. The remaining interest is deferred until maturity.
- (9) Beginning in April 2023, the Company has the right to unilaterally force the sale of the Prospect Hackensack's underlying property. Beginning in June 2022, the Company has the right to unilaterally force the sale of Santa Clarita's underlying property.

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The following is a summary of the contractual maturities of the Company's CRE loans held for investment, at amortized cost (in thousands, except amounts in the footnotes):

Description	2020	2021	2022 and Thereafter	Total
At December 31, 2019:				
Whole loans ⁽¹⁾	\$ 319,868	\$ 737,478	\$ 691,747	\$ 1,749,093
Mezzanine loan	—	—	4,700	4,700
Preferred equity investment	—	—	26,148	26,148
Total CRE loans ⁽¹⁾	<u>\$ 319,868</u>	<u>\$ 737,478</u>	<u>\$ 722,595</u>	<u>\$ 1,779,941</u>

Description	2019	2020	2021 and Thereafter	Total
At December 31, 2018:				
Whole loans ⁽¹⁾	\$ 227,851	\$ 450,596	\$ 839,151	\$ 1,517,598
Mezzanine loan	—	—	4,700	4,700
Preferred equity investment	—	—	19,555	19,555
Total CRE loans ⁽¹⁾	<u>\$ 227,851</u>	<u>\$ 450,596</u>	<u>\$ 863,406</u>	<u>\$ 1,541,853</u>

(1) Excludes one whole loan, with an amortized cost of \$11.5 million, in maturity default and performing with respect to debt service due in accordance with a forbearance agreement at December 31, 2019 and 2018.

(2) At December 31, 2019, the amortized costs of the CRE whole loans, summarized by contractual maturity assuming full exercise of the extension options, were \$105.5 million, \$68.0 million and \$1.6 billion in 2020, 2021 and 2022 and thereafter, respectively. At December 31, 2018, the amortized costs of the CRE whole loans, summarized by contractual maturity assuming full exercise of the extension options, were \$10.4 million, \$182.4 million and \$1.3 billion in 2019, 2020 and 2021 and thereafter, respectively.

At December 31, 2019, approximately 19.5%, 19.4% and 17.6% of the Company's CRE loan portfolio was concentrated in the Mountain, Southwest and Southeast regions, respectively, based on carrying value, as defined by the National Council of Real Estate Investment Fiduciaries. At December 31, 2018, approximately 32.3%, 20.9% and 17.1% of the Company's CRE loan portfolio was concentrated in the Southwest, Mountain and Pacific regions, respectively, based on carrying value.

Principal Paydowns Receivable

Principal paydowns receivable represents loan principal payments that have been received by the Company's servicers and trustees but have not been remitted to the Company. At December 31, 2019, the Company had \$19.5 million of loan principal paydowns receivable, all of which was received in cash by the Company during January 2020. At December 31, 2018, the Company had \$32.1 million of loan principal paydowns receivable, all of which was received by the Company during January 2019.

NOTE 7 - FINANCING RECEIVABLES

The following tables show the activity in the allowance for loan losses for the years ended December 31, 2019 and 2018 and the allowance for loan losses and recorded investments in loans at December 31, 2019 and 2018 (in thousands, except amount in the footnotes):

	Years Ended December 31,	
	2019	2018
	Commercial Real Estate Loans	Commercial Real Estate Loans
Allowance for loan losses:		
Allowance for loan losses at beginning of year	\$ 1,401	\$ 5,328
Provision for (recovery of) loan losses, net ⁽¹⁾	59	(1,595)
Loans charged-off	—	(2,332)
Allowance for loan losses at end of year	<u>\$ 1,460</u>	<u>\$ 1,401</u>

(1) Excludes the recovery of loan losses on one bank loan with no amortized cost or carrying value at December 31, 2019 and 2018 that received a payment of approximately \$1,000 during the year ended December 31, 2019.

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	December 31,	
	2019	2018
	Commercial Real Estate Loans	Commercial Real Estate Loans
Allowance for loan losses ending balance:		
Individually evaluated for impairment	\$ —	\$ —
Collectively evaluated for impairment	\$ 1,460	\$ 1,401
Loans:		
Amortized cost ending balance:		
Individually evaluated for impairment ⁽¹⁾	\$ 30,848	\$ 24,255
Collectively evaluated for impairment	\$ 1,760,597	\$ 1,529,113

(1) The Company's mezzanine loan and preferred equity investments are evaluated individually for impairment.

Credit quality indicators

Commercial Real Estate Loans

CRE loans are collateralized by a diversified mix of real estate properties and are assessed for credit quality based on the collective evaluation of several factors, including but not limited to: collateral performance relative to underwritten plan, time since origination, current implied and/or reunderwritten LTV ratios, loan structure and exit plan. Depending on the loan's performance against these various factors, loans are rated on a scale from 1 to 5, with loans rated 1 representing loans with the highest credit quality and loans rated 5 representing loans with the lowest credit quality. The factors evaluated provide general criteria to monitor credit migration in the Company's loan portfolio; as such, a loan's rating may improve or worsen, depending on new information received.

The criteria set forth below should be used as general guidelines and, therefore, not every loan will have all of the characteristics described in each category below. Loans that are performing according to their underwritten plans generally will not require an allowance for loan loss.

Risk Rating	Risk Characteristics
1	<ul style="list-style-type: none"> • Property performance has surpassed underwritten expectations. • Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix.
2	<ul style="list-style-type: none"> • Property performance is consistent with underwritten expectations and covenants and performance criteria are being met or exceeded. • Occupancy is stabilized, near stabilized or is on track with underwriting.
3	<ul style="list-style-type: none"> • Property performance lags behind underwritten expectations. • Occupancy is not stabilized and the property has some tenancy rollover.
4	<ul style="list-style-type: none"> • Property performance significantly lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. • Occupancy is not stabilized and the property has a large amount of tenancy rollover.
5	<ul style="list-style-type: none"> • Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Expected sale proceeds would not be sufficient to pay off the loan at maturity. • The property has a material vacancy rate and significant rollover of remaining tenants. • An updated appraisal is required upon designation and updated on an as-needed basis.

All CRE loans are evaluated for any credit deterioration by debt asset management and certain finance personnel on at least a quarterly basis.

Whole loans are first individually evaluated for impairment; and to the extent not deemed impaired, a general reserve is established.

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The allowance for loan loss is computed as (i) 1.5% of the aggregate face values of loans rated as a 3, plus (ii) 5.0% of the aggregate face values of loans rated as a 4, plus (iii) specific allowances measured and determined on loans individually evaluated, which are loans rated as a 5. While the overall risk rating is generally not the sole factor used in determining whether a loan is impaired, a loan with a higher overall risk rating would tend to have more adverse indicators of impairment, and therefore would be more likely to experience a credit loss.

The Company's mezzanine loan and preferred equity investments are evaluated individually for impairment.

Credit risk profiles of CRE loans, at amortized cost, and a legacy CRE loan held for sale at the lower of cost or fair value were as follows (in thousands, except amounts in footnotes):

	Rating 1	Rating 2	Rating 3 ⁽¹⁾	Rating 4	Rating 5	Held for Sale ⁽²⁾	Total
At December 31, 2019:							
Whole loans	\$ —	\$ 1,660,274	\$ 96,475	\$ 3,848	\$ —	\$ —	\$ 1,760,597
Mezzanine loan ⁽³⁾	—	4,700	—	—	—	—	4,700
Preferred equity investments ⁽³⁾	—	26,148	—	—	—	—	26,148
Total	<u>\$ —</u>	<u>\$ 1,691,122</u>	<u>\$ 96,475</u>	<u>\$ 3,848</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,791,445</u>
At December 31, 2018:							
Whole loans	\$ —	\$ 1,447,206	\$ 77,067	\$ 4,840	\$ —	\$ —	\$ 1,529,113
Mezzanine loan ⁽³⁾	—	4,700	—	—	—	—	4,700
Preferred equity investment ⁽³⁾	—	19,555	—	—	—	—	19,555
Legacy CRE loan held for sale ⁽⁴⁾	—	—	—	—	—	17,000	17,000
Total	<u>\$ —</u>	<u>\$ 1,471,461</u>	<u>\$ 77,067</u>	<u>\$ 4,840</u>	<u>\$ —</u>	<u>\$ 17,000</u>	<u>\$ 1,570,368</u>

(1) Includes one whole loan, with an amortized cost of \$11.5 million that was in maturity default at December 31, 2019 and 2018. The loan is performing with respect to debt service due in accordance with a forbearance agreement at December 31, 2019 and 2018.

(2) Includes one legacy CRE loan that was in default with a total carrying value of \$17.0 million at December 31, 2018.

(3) The Company's mezzanine loan and preferred equity investments are evaluated individually for impairment.

(4) In November 2019, the Company foreclosed on the remaining legacy CRE loan held for sale (see Note 23).

Loan Portfolios Aging Analysis

The following table presents the CRE loan portfolio aging analysis as of the dates indicated for CRE loans, at amortized cost, and a legacy CRE loan held for sale at the lower of cost or fair value (in thousands, except amounts in footnotes):

	30-59 Days	60-89 Days	Greater than 90 Days ⁽¹⁾⁽²⁾	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing ⁽¹⁾
At December 31, 2019:							
Whole loans	\$ —	\$ —	\$ 11,503	\$ 11,503	\$ 1,749,094	\$ 1,760,597	\$ 11,503
Mezzanine loan	—	—	—	—	4,700	4,700	—
Preferred equity investments	—	—	—	—	26,148	26,148	—
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,503</u>	<u>\$ 11,503</u>	<u>\$ 1,779,942</u>	<u>\$ 1,791,445</u>	<u>\$ 11,503</u>
At December 31, 2018:							
Whole loans	\$ —	\$ —	\$ 11,516	\$ 11,516	\$ 1,517,597	\$ 1,529,113	\$ 11,516
Mezzanine loan	—	—	—	—	4,700	4,700	—
Preferred equity investment	—	—	—	—	19,555	19,555	—
Legacy CRE loan held for sale ⁽³⁾	—	—	17,000	17,000	—	17,000	—
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 28,516</u>	<u>\$ 28,516</u>	<u>\$ 1,541,852</u>	<u>\$ 1,570,368</u>	<u>\$ 11,516</u>

(1) Includes one whole loan, with an amortized cost of \$11.5 million, that was in maturity default at December 31, 2019 and 2018. The loan is performing with respect to debt service due in accordance with a forbearance agreement at December 31, 2019 and 2018. During the years ended December 31, 2019, 2018 and 2017, the Company recognized interest income of \$747,000, \$621,000 and \$610,000, respectively, on this whole loan.

(2) Includes one legacy CRE loan that was in default with a total carrying value of \$17.0 million at December 31, 2018.

(3) In November 2019, the Company foreclosed on the remaining legacy CRE loan held for sale (see Note 23).

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Impaired Loans

The Company did not have any impaired loans at December 31, 2019 and 2018.

Troubled- Debt Restructurings

There were no TDRs for the years ended December 31, 2019 and 2018.

NOTE 8 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The following table summarizes the Company's investment securities available-for-sale, including those pledged as collateral (in thousands, except amounts in the footnote):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value ⁽¹⁾
At December 31, 2019:				
CMBS, fixed-rate	\$ 132,235	\$ 6,596	\$ (792)	\$ 138,039
CMBS, floating-rate	382,659	995	(979)	382,675
Total	<u>\$ 514,894</u>	<u>\$ 7,591</u>	<u>\$ (1,771)</u>	<u>\$ 520,714</u>
At December 31, 2018:				
CMBS, fixed-rate	\$ 121,487	\$ 559	\$ (2,307)	\$ 119,739
CMBS, floating-rate	301,132	253	(2,126)	299,259
Total	<u>\$ 422,619</u>	<u>\$ 812</u>	<u>\$ (4,433)</u>	<u>\$ 418,998</u>

(1) At December 31, 2019 and 2018, investment securities available-for-sale with fair values of \$466.9 million and \$388.4 million, respectively, were pledged as collateral under related financings.

The following table summarizes the estimated payoff dates of the Company's investment securities available-for-sale according to their estimated weighted average life classifications (dollars in thousands, except amounts in footnotes):

	December 31, 2019			December 31, 2018		
	Amortized Cost ⁽¹⁾	Fair Value ⁽¹⁾	Weighted Average Coupon ⁽²⁾	Amortized Cost ⁽¹⁾	Fair Value ⁽¹⁾	Weighted Average Coupon ⁽²⁾
Less than one year ⁽³⁾	\$ 187,943	\$ 188,005	4.77%	\$ 126,446	\$ 126,014	5.76%
Greater than one year and less than five years	80,937	80,925	4.85%	98,220	97,083	5.21%
Greater than five years and less than ten years	246,014	251,784	3.83%	197,953	195,901	4.06%
Total	<u>\$ 514,894</u>	<u>\$ 520,714</u>	<u>4.30%</u>	<u>\$ 422,619</u>	<u>\$ 418,998</u>	<u>4.76%</u>

(1) Includes CMBS positions subject to other-than-temporary-impairment that have no stated coupon rates that are excluded from the calculation of the weighted average coupon rate. The position with less than one year of projected life had no amortized cost or fair value at December 31, 2019 and 2018. The positions with greater than one year and less than five years of projected lives had amortized costs of \$106,000 and \$105,000 and no fair values at December 31, 2019 and 2018, respectively. There were no positions subject to other-than-temporary-impairment with projected lives of greater than five years and less than ten years at December 31, 2019 and 2018.

(2) The weighted average coupon rate is based on the face values of the associated securities.

(3) The Company expects that the payoff dates of these CMBS will either be extended or that the securities will be paid off in full.

At December 31, 2019, the contractual maturities, which may be different than the estimated weighted average lives reflected in the table above, of the CMBS investment securities available-for-sale range from December 2024 to December 2061.

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The following table summarizes the fair value, gross unrealized losses and number of lots aggregated by investment category and the length of time that individual investment securities available-for-sale have been in a continuous unrealized loss position during the periods specified (dollars in thousands):

	Less than 12 Months			More than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Lots	Fair Value	Unrealized Losses	Number of Lots	Fair Value	Unrealized Losses	Number of Lots
At December 31, 2019:									
CMBS	\$ 48,618	\$ (181)	13	\$ 72,013	\$ (1,590)	21	\$ 120,631	\$ (1,771)	34
At December 31, 2018:									
CMBS	\$ 329,441	\$ (4,001)	49	\$ 6,757	\$ (432)	7	\$ 336,198	\$ (4,433)	56

The unrealized losses in the above table are considered to be temporary impairments due to market factors and are not reflective of credit deterioration.

The Company recognized \$934,000 of other-than-temporary impairments on its investment securities available-for-sale during the year ended December 31, 2018. In December 2018, a \$934,000 impairment was recorded on one CMBS resulting from a collateral shortfall in the securitization. The Company recognized no other-than-temporary impairments on its investment securities available-for-sale during the years ended December 31, 2019 and 2017.

The following table summarizes the Company's sales and redemptions of investment securities available-for-sale for the years ended December 31, 2019, 2018 and 2017 (dollars in thousands):

	Positions Sold	Positions Redeemed	Par Amount Sold/Redeemed	Amortized Cost	Realized Gain (Loss)	Proceeds
Year Ended December 31, 2019:						
CMBS	1	—	\$ 634	\$ 634	\$ 4	\$ 638
Total	<u>1</u>	<u>—</u>	<u>\$ 634</u>	<u>\$ 634</u>	<u>\$ 4</u>	<u>\$ 638</u>
Year Ended December 31, 2018:						
CMBS	1	—	\$ 14,929	\$ 11,676	\$ 352	\$ 12,028
ABS	2	—	411	265	(217)	48
Total	<u>3</u>	<u>—</u>	<u>\$ 15,340</u>	<u>\$ 11,941</u>	<u>\$ 135</u>	<u>\$ 12,076</u>
Year Ended December 31, 2017:						
CMBS	2	—	\$ 7,350	\$ 6,650	\$ (238)	\$ 6,412
ABS - structured notes	3	—	24,267	19,258	632	17,608
ABS	5	—	8,306	4,319	1,356	5,675
RMBS	3	—	153,519	1,274	(158)	1,116
Total	<u>13</u>	<u>—</u>	<u>\$ 193,442</u>	<u>\$ 31,501</u>	<u>\$ 1,592</u>	<u>\$ 30,811</u>

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NOTE 9 - INVESTMENTS IN UNCONSOLIDATED ENTITIES

The following table summarizes the Company's investments in unconsolidated entities at December 31, 2019 and 2018 and equity in earnings of unconsolidated entities for the years ended December 31, 2019, 2018 and 2017 (dollars in thousands, except amount in the footnotes):

	Ownership % at December 31, 2019	December 31,		Equity in Earnings of Unconsolidated Entities		
		2019	2018	Years Ended December 31,		
		2019	2018	2019	2018	2017
Pelium Capital ⁽¹⁾	—%	\$ —	\$ —	\$ —	\$ (182)	\$ (1,856)
RCM Global LLC ⁽²⁾	—%	—	—	—	(12)	(274)
Investment in LCC Preferred Stock ⁽³⁾	—%	—	—	—	411	41,465
RRE VIP Borrower, LLC ⁽⁴⁾	—%	—	—	—	—	45
Pearlmark Mezzanine Realty Partners IV, L.P. ⁽⁵⁾	—%	—	—	—	—	165
Subtotal		—	—	—	217	39,545
Investment in RCT I and II ⁽⁶⁾	3.0%	1,548	1,548	100	96	81
Total		\$ 1,548	\$ 1,548	\$ 100	\$ 313	\$ 39,626

(1) During the year ended December 31, 2018, the Company received distributions of \$10.4 million on its investment in Pelium Capital Partners, L.P. ("Pelium Capital"). In December 2018, Pelium Capital was fully liquidated.

(2) In December 2018, RCM Global LLC was fully liquidated.

(3) The Company's investment in LEAF Commercial Capital, Inc. ("LCC") liquidated in July 2017 as a result of the sale of LCC. Earnings for the year ended December 31, 2018 were related to the receipt of a distribution of funds formerly held in escrow accounts established as part of the sale.

(4) The Company sold its investment in RRE VIP Borrower, LLC in December 2014. Earnings for the year ended December 31, 2017 was related to insurance premium refunds with respect to the underlying sold properties in the portfolio.

(5) The Company sold its investment in Pearlmark Mezzanine Realty Partners IV, L.P. ("Pearlmark Mezz") in May 2017.

(6) During the years ended December 31, 2019, 2018 and 2017, dividends from the investments in RCT I and RCT II's common shares were recorded in other revenue. See Note 10 for the disclosures on the associated unsecured junior subordinated debentures.

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NOTE 10 - BORROWINGS

The Company historically has financed the acquisition of its investments, including investment securities and loans, through the use of secured and unsecured borrowings in the form of securitized notes, repurchase agreements, secured term facilities, warehouse facilities, convertible senior notes and trust preferred securities issuances. Certain information with respect to the Company's borrowings is summarized in the following table (dollars in thousands, except amounts in footnotes):

	Principal Outstanding	Unamortized Issuance Costs and Discounts	Outstanding Borrowings	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity	Value of Collateral
At December 31, 2019:						
XAN 2018-RSO6 Senior Notes	\$ 177,118	\$ 1,352	\$ 175,766	3.17%	15.5 years	\$ 293,890
XAN 2019-RSO7 Senior Notes	575,679	5,007	570,672	3.03%	16.3 years	687,037
Unsecured junior subordinated debentures	51,548	—	51,548	5.90%	16.7 years	—
4.50% Convertible Senior Notes	143,750	10,137	133,613	4.50%	2.6 years	—
8.00% Convertible Senior Notes	21,182	9	21,173	8.00%	15 days	—
CRE - term repurchase facilities ⁽¹⁾	547,619	2,714	544,905	3.71%	1.2 years	705,221
CMBS - short term repurchase agreements ⁽²⁾	374,900	—	374,900	2.87%	21 days	484,398
Total	\$1,891,796	\$ 19,219	\$1,872,577	3.45%	7.4 years	\$2,170,546

	Principal Outstanding	Unamortized Issuance Costs and Discounts	Outstanding Borrowings	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity	Value of Collateral
At December 31, 2018:						
RCC 2017-CRE5 Senior Notes	\$ 109,250	\$ 1,121	\$ 108,129	3.76%	15.6 years	\$ 228,031
XAN 2018-RSO6 Senior Notes	397,452	4,536	392,916	3.55%	16.5 years	514,225
Unsecured junior subordinated debentures	51,548	—	51,548	6.61%	17.7 years	—
4.50% Convertible Senior Notes	143,750	13,504	130,246	4.50%	3.6 years	—
8.00% Convertible Senior Notes	21,182	238	20,944	8.00%	1.0 year	—
CRE - term repurchase facilities ⁽¹⁾	512,716	5,269	507,447	4.47%	2.0 years	696,215
Trust certificates - term repurchase facility ⁽³⁾	47,451	279	47,172	6.41%	1.7 years	118,780
CMBS - short term repurchase agreements ⁽²⁾	295,821	—	295,821	3.63%	19 days	395,868
Total	\$1,579,170	\$ 24,947	\$1,554,223	4.21%	6.9 years	\$1,953,119

(1) Principal outstanding includes accrued interest payable of \$810,000 and \$911,000 at December 31, 2019 and 2018, respectively.

(2) Principal outstanding includes accrued interest payable of \$470,000 and \$773,000 at December 31, 2019 and 2018, respectively.

(3) Principal outstanding includes accrued interest payable of \$118,000 at December 31, 2018.

Securitizations

The following table sets forth certain information with respect to the Company's consolidated securitizations at December 31, 2019 (in thousands):

	Closing Date	Maturity Date	End of Designated Principal Reinvestment Period ⁽¹⁾	Total Note Paydowns from Closing Date through December 31, 2019
XAN 2018-RSO6	June 2018	June 2035	December 2020	\$ 220,334
XAN 2019-RSO7	April 2019	April 2036	April 2022	\$ 132

(1) The designated principal reinvestment period is the period in which principal repayments can be utilized to purchase loans held outside of the respective securitization that represent the funded commitments of existing collateral in the respective securitization that were not funded as of the date the respective securitization was closed.

The investments held by the Company's securitizations collateralize the securitizations' borrowings and, as a result, are not available to the Company, its creditors, or stockholders. All senior notes of the securitizations held by the Company at December 31, 2019 and 2018 were eliminated in consolidation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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RCC 2014-CRE2

In July 2014, the Company closed Resource Capital Corp. 2014-CRE2, Ltd. (“RCC 2014-CRE2”), a \$353.9 million CRE securitization transaction that provided financing for transitional CRE loans. In August 2017, the Company executed the liquidation of RCC 2014-CRE2, and all of the outstanding senior notes were paid off from the payoff proceeds of certain of the securitization’s assets.

RCC 2015-CRE3

In February 2015, the Company closed Resource Capital Corp. 2015-CRE3, Ltd. (“RCC 2015-CRE3”), a \$346.2 million CRE securitization transaction that provided financing for transitional CRE loans. In August 2018, the Company’s subsidiary exercised the optional redemption feature of RCC 2015-CRE3, and all of the outstanding senior notes were paid off from the payoff proceeds of certain of the securitization’s assets.

RCC 2015-CRE4

In August 2015, the Company closed Resource Capital Corp. 2015-CRE4, Ltd. (“RCC 2015-CRE4”), a \$312.9 million CRE securitization transaction that provided financing for transitional CRE loans. In July 2018, the Company’s subsidiary exercised the optional redemption feature of RCC 2015-CRE4, and all of the outstanding senior notes were paid off from the payoff proceeds of certain of the securitization’s assets.

RCC 2017-CRE5

In July 2017, the Company closed Resource Capital Corp. 2017-CRE5, Ltd. (“RCC 2017-CRE5”), a \$376.7 million CRE securitization transaction that provided financing for transitional CRE loans. In May 2019, the Company paid off all of the outstanding third-party owned senior notes from the payoff proceeds of certain of the securitization’s assets. In July 2019, the Company exercised the optional redemption feature of the securitization.

XAN 2018-RSO6

In June 2018, the Company closed Exantas Capital Corp. 2018-RSO6, Ltd. (“XAN 2018-RSO6”), a \$514.2 million CRE securitization transaction that provided financing for transitional CRE loans. XAN 2018-RSO6 offered approximately \$405.0 million of senior notes, at par, to unrelated investors. A subsidiary of RCC RE purchased 16.7% of the Class D senior notes and 100% of the Class E and Class F notes. In addition, a subsidiary of RCC RE purchased an equity interest representing 100% of the outstanding preference shares. The Class E and Class F notes purchased by a subsidiary of RCC RE are subordinated in right of payment to all other senior notes issued by XAN 2018-RSO6, but are senior in right of the payment to the preference shares. The equity interest is subordinated in right of payment to all other securities issued by XAN 2018-RSO6.

At closing, the senior notes issued to investors consisted of the following classes: (i) \$290.5 million of Class A notes bearing interest at one-month LIBOR plus 0.83%, increasing to 1.08% in May 2023; (ii) \$39.2 million of Class B notes bearing interest at one-month LIBOR plus 1.15%, increasing to 1.65% in July 2023; (iii) \$30.2 million of Class C notes bearing interest at one-month LIBOR plus 1.85%, increasing to 2.35% in July 2023; (iv) \$45.0 million of Class D notes bearing interest at one-month LIBOR plus 2.50%, increasing to 3.00% in September 2023; (v) \$18.0 million of Class E notes bearing interest at one-month LIBOR plus 4.00%; and (vi) \$21.9 million of Class F notes bearing interest at one-month LIBOR plus 5.00%.

All of the notes issued mature in June 2035, although the Company has the right to call the notes any time after July 2020 until maturity.

XAN 2019-RSO7

In April 2019, the Company closed Exantas Capital Corp. 2019-RSO7, Ltd. (“XAN 2019-RSO7”), a \$687.2 million CRE debt securitization transaction that provided financing for CRE loans. XAN 2019-RSO7 issued a total of \$585.8 million of non-recourse, floating-rate notes at par, of which RCC RE purchased \$10.0 million, or approximately 20.4%, of the Class D notes. Additionally, RCC RE purchased 100% of the Class E and Class F notes and a subsidiary of RCC RE purchased 100% of the outstanding preference shares. The notes purchased by RCC RE are subordinated in right of payment to all other senior notes issued by XAN 2019-RSO7, but are senior in right of payment to the preference shares. The preference shares are subordinated in right of payment to all other securities issued by XAN 2019-RSO7.

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At closing, the senior notes issued to investors consisted of the following classes: (i) \$390.0 million of Class A notes bearing interest at one-month LIBOR plus 1.00%, increasing to 1.25% in April 2024; (ii) \$70.4 million of Class A-S notes bearing interest at one-month LIBOR plus 1.50%, increasing to 1.75% in April 2024; (iii) \$33.5 million of Class B notes bearing interest at one-month LIBOR plus 1.70%, increasing to 2.20% in May 2024; (iv) \$42.9 million of Class C notes bearing interest at one-month LIBOR plus 2.05%, increasing to 2.55% in June 2024; and (v) \$49.0 million of Class D notes bearing interest at one-month LIBOR plus 2.70% increasing to 3.20% in July 2024.

All of the notes issued mature in April 2036, although the Company has the right to call the notes anytime after May 2021. Principal repayments received, after closing and ending in April 2022, may be used to purchase funding participations with respect to existing collateral held outside of the securitization.

Corporate Debt

Unsecured Junior Subordinated Debentures

During 2006, the Company formed RCT I and RCT II for the sole purpose of issuing and selling capital securities representing preferred beneficial interests. RCT I and RCT II are not consolidated into the Company's consolidated financial statements because the Company is not deemed to be the primary beneficiary of these entities. In connection with the issuance and sale of the capital securities, the Company issued junior subordinated debentures to RCT I and RCT II of \$25.8 million each, representing the Company's maximum exposure to loss. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II were included in borrowings and were amortized into interest expense on the consolidated statements of operations using the effective yield method over a ten year period.

There were no unamortized debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II outstanding at December 31, 2019 and 2018. The interest rates for RCT I and RCT II, at December 31, 2019, were 5.91% and 5.89%, respectively. The interest rates for RCT I and RCT II, at December 31, 2018, were 6.75% and 6.47%, respectively.

The rights of holders of common securities of RCT I and RCT II are subordinate to the rights of the holders of capital securities only in the event of a default; otherwise, the common securities' economic and voting rights are pari passu with the capital securities. The capital and common securities of RCT I and RCT II are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures held by each. Unless earlier dissolved, RCT I will dissolve in May 2041 and RCT II will dissolve in September 2041. The junior subordinated debentures are the sole assets of RCT I and RCT II, which mature in June 2036 and October 2036, respectively, and may currently be called at par.

4.50% Convertible Senior Notes, 6.00% Convertible Senior Notes and 8.00% Convertible Senior Notes

The Company issued \$100.0 million aggregate principal of its 8.00% convertible senior notes due 2020 ("8.00% Convertible Senior Notes") and \$143.8 million aggregate principal of its 4.50% convertible senior notes due 2022 ("4.50% Convertible Senior Notes") in January 2015 and August 2017, respectively (together, the "Convertible Senior Notes"). Additionally, the Company issued \$115.0 million aggregate principal of its 6.00% convertible senior notes due 2018 ("6.00% Convertible Senior Notes") in October 2013. In conjunction with the issuance of the 4.50% Convertible Senior Notes, the Company extinguished \$44.5 million and \$78.8 million aggregate principal of its 6.00% Convertible Senior Notes and 8.00% Convertible Senior Notes, respectively. In December 2018, the 6.00% Convertible Senior Notes were paid off upon maturity.

The following table summarizes the Convertible Senior Notes at December 31, 2019 (dollars in thousands, except the conversion prices and amounts in the footnotes):

	Principal Outstanding	Borrowing Rate	Effective Rate ⁽¹⁾	Conversion Rate ⁽²⁾⁽³⁾	Conversion Price ⁽³⁾	Maturity Date
4.50% Convertible Senior Notes	\$ 143,750	4.50%	7.43%	83.1676	\$ 12.02	August 15, 2022
8.00% Convertible Senior Notes	\$ 21,182	8.00%	9.13%	46.8604	\$ 21.34	January 15, 2020

(1) Includes the amortization of the market discounts and deferred debt issuance costs, if any, for the Convertible Senior Notes recorded in interest expense on the consolidated statements of operations.

(2) Represents the number of shares of common stock per \$1,000 principal amount of the Convertible Senior Notes' principal outstanding, subject to adjustment as provided in the Second Supplemental Indenture (the "8.00% Convertible Senior Notes Indenture") and the Third Supplemental Indenture (the "4.50% Convertible Senior Notes Indenture").

(3) The conversion rate and conversion price of the 4.50% Convertible Senior Notes at December 31, 2019 are adjusted to reflect quarterly cash dividends in excess of a \$0.10 dividend threshold, as defined in the 4.50% Convertible Senior Notes Indenture. The split-adjusted dividend threshold of \$0.64, as defined in the 8.00% Convertible Senior Notes Indenture, was not exceeded for the years ended December 31, 2019, 2018 and 2017.

In January 2020, the 8.00% Convertible Senior Notes were paid off upon maturity.

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The 4.50% Convertible Senior Notes are convertible at the option of the holder at any time up until one business day before the maturity date and may be settled in cash, the Company's common stock or a combination of cash and the Company's common stock, at the Company's election. The Company may not redeem the 4.50% Convertible Senior Notes prior to maturity. The closing price of the Company's common stock was \$11.81 on December 31, 2019, which did not exceed the conversion price of its 4.50% Convertible Senior Notes at December 31, 2019.

Repurchase and Credit Facilities

Borrowings under the Company's repurchase agreements are guaranteed by the Company or one of its subsidiaries. The following table sets forth certain information with respect to the Company's repurchase agreements (dollars in thousands, except amounts in footnotes):

	December 31, 2019				December 31, 2018			
	Outstanding Borrowings ⁽¹⁾	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate	Outstanding Borrowings ⁽¹⁾	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate
CRE - Term Repurchase Facilities								
Wells Fargo Bank, N.A. ⁽²⁾	\$ 225,217	\$ 291,903	28	3.70%	\$ 154,478	\$ 226,530	13	4.33%
Morgan Stanley Bank, N.A. ⁽³⁾	—	—	—	—%	37,113	62,457	3	5.09%
Barclays Bank PLC ⁽⁴⁾	111,881	145,035	14	3.99%	240,416	308,389	11	4.51%
JPMorgan Chase Bank, N.A. ⁽⁵⁾	207,807	268,283	17	3.56%	75,440	98,839	5	4.30%
Trust Certificates - Term Repurchase Facilities								
RSO Repo SPE Trust 2017 ⁽⁶⁾	—	—	—	—%	47,172	118,780	2	6.41%
CMBS - Short-Term Repurchase Agreements								
Deutsche Bank Securities Inc.	37,141	57,331	6	3.13%	7,305	9,158	5	3.98%
JP Morgan Securities LLC	33,703	42,075	13	2.87%	42,040	73,066	13	3.57%
Barclays Capital Inc.	87,643	112,939	7	2.82%	—	—	—	—%
RBC Capital Markets, LLC	34,829	47,081	5	2.96%	246,476	313,644	33	3.64%
RBC (Barbados) Trading Bank Corporation	181,584	224,972	30	2.82%	—	—	—	—%
Total	<u>\$ 919,805</u>	<u>\$ 1,189,619</u>			<u>\$ 850,440</u>	<u>\$ 1,210,863</u>		

(1) Outstanding borrowings include accrued interest payable.

(2) Includes \$607,000 and \$1.6 million of deferred debt issuance costs at December 31, 2019 and 2018, respectively.

(3) Includes \$167,000 of deferred debt issuance costs at December 31, 2018. There were no deferred debt issuance costs at December 31, 2019.

(4) Includes \$817,000 and \$1.5 million of deferred debt issuance costs at December 31, 2019 and 2018, respectively.

(5) Includes \$1.3 million and \$2.0 million of deferred debt issuance costs at December 31, 2019 and 2018, respectively.

(6) Includes \$204,000 of deferred debt issuance costs at December 31, 2018. There were no deferred debt issuance costs at December 31, 2019.

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The following table shows information about the amount at risk under the repurchase facilities (dollars in thousands):

	Amount at Risk ⁽¹⁾	Weighted Average Remaining Maturity	Weighted Average Interest Rate
At December 31, 2019:			
CRE - Term Repurchase Facilities			
Wells Fargo Bank, N. A.	\$ 67,007	203 days	3.70%
Barclays Bank PLC	\$ 32,967	1.3 years	3.99%
JPMorgan Chase Bank, N. A.	\$ 60,159	1.8 years	3.56%
CMBS - Short-Term Repurchase Agreements			
Deutsche Bank Securities Inc.	\$ 20,329	42 days	3.13%
JP Morgan Securities LLC	\$ 8,512	18 days	2.87%
Barclays Capital Inc.	\$ 25,532	17 days	2.82%
RBC Capital Markets, LLC	\$ 12,341	17 days	2.96%
RBC (Barbados) Trading Bank Corporation	\$ 43,722	20 days	2.82%

(1) Equal to the total of the estimated fair value of securities or loans sold and accrued interest receivable, minus the total of the repurchase agreement liabilities and accrued interest payable.

The Company was in compliance with all financial covenants in each of the respective agreements at December 31, 2019.

CRE - Term Repurchase Facilities

In February 2012, a wholly-owned subsidiary entered into a master repurchase and securities agreement (the “2012 Facility”) with Wells Fargo Bank, N.A. (“Wells Fargo”) to finance the origination of CRE loans. In July 2018, the subsidiary entered into an amended and restated master repurchase agreement (the “2018 Facility”), in exchange for an extension fee and other reasonable costs, that maintained the \$400.0 million maximum facility amount and extended the term of the facility to July 2020 with three one-year extension options exercisable at the Company’s discretion. The 2018 Facility charges interest rates of one-month LIBOR plus spreads from 1.75% to 2.50%. In May 2019, the Company executed an amendment of the 2018 Facility, amending certain terms to add an available loan servicer and to update references in connection with an amended fee letter.

The 2018 Facility, consistent with the 2012 Facility, contains customary events of default. The remedies for such events of default are also customary for this type of transaction and include the acceleration of all obligations of the Company to repay the purchase price for purchased assets.

The 2018 Facility, consistent with the 2012 Facility, also contains margin call provisions relating to a decline in the market value of a security. Under these circumstances, Wells Fargo may require the Company to transfer cash in an amount sufficient to eliminate any margin deficit resulting from such a decline.

Consistent with the guaranty agreement dated February 2012, the Company continues to guarantee the payment and performance of its subsidiaries’ obligations to the lender through an amended and restated guaranty agreement dated in July 2018 (the “2018 Guaranty”), including all reasonable expenses that are incurred by the lender in connection with the enforcement of the 2018 Facility. The 2018 Guaranty includes covenants that, among other requirements, stipulate certain thresholds, including: required liquidity, required capital, total indebtedness to total equity, EBITDA to interest expense and total indebtedness.

In September 2015, the Company’s wholly-owned subsidiary entered into a master repurchase and securities agreement (the “Morgan Stanley Facility”) with Morgan Stanley Bank, N.A. (“Morgan Stanley”) to finance the origination of CRE loans. The Company entered into three amendments to the Morgan Stanley Facility, the third of which was entered into in September 2019, which ultimately reduced its maximum capacity to \$37.2 million and extended the maturity date through October 2019, at which time it was repaid in full.

In April 2018, the Company’s indirect wholly-owned subsidiary entered into a master repurchase agreement (the “Barclays Facility”) with Barclays Bank PLC (“Barclays”) to finance the Company’s core CRE lending business. The Barclays Facility has a maximum facility amount of \$250.0 million, charges interest of one-month LIBOR plus a spread between 2.00% and 2.50% and matures in April 2021, subject to certain one-year extension options in accordance with the facility’s terms. The Company paid a structuring fee as well as other reasonable closing costs.

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The Barclays Facility contains margin call provisions that provide Barclays with certain rights when there has been a decline in the value of purchased assets. Under these circumstances, Barclays may require the Company to transfer cash in an amount necessary to eliminate such margin deficit or repurchase the asset that resulted in the margin call.

In connection with the Barclays Facility, the Company fully guaranteed all payments and performance under the Barclays Facility pursuant to a guaranty agreement (the “Barclays Guaranty”). The Barclays Guaranty includes certain financial covenants required of the Company, including required liquidity, required capital, ratios of total indebtedness to equity and EBITDA requirements. Also, RCC RE, the direct owner of the wholly-owned subsidiary borrower, executed a pledge and security agreement with Barclays whereby it agreed to pledge and grant to Barclays a continuing security interest in any and all of its right, title and interest in and to the wholly-owned subsidiary, including all distributions, proceeds, payments, income and profits from its interests in the wholly-owned subsidiary.

The Barclays Facility contains events of default, subject to certain materiality thresholds and grace periods, customary for this type of financing arrangement. The remedies for such events of default are also customary for this type of transaction and include the acceleration of the principal amount outstanding under the Barclay Facility and the liquidation by Barclays of purchased assets then subject to the Barclays Facility.

In October 2018, an indirect wholly-owned subsidiary of the Company entered into a master repurchase agreement (the “JPMorgan Chase Facility”) with JPMorgan Chase Bank, N.A. (“JPMorgan Chase”) to finance the origination of CRE loans. The JPMorgan Chase Facility has a maximum facility amount of \$250.0 million, generally charges interest of one-month LIBOR plus a spread between 2.00% and 2.25% and matures in October 2021, subject to two one-year extension options in accordance with the facility’s terms. The Company paid a structuring fee as well as other reasonable closing costs.

The JPMorgan Chase Facility contains margin call provisions that provide JPMorgan Chase with certain rights if the value of purchased assets declines. Under these circumstances, JPMorgan Chase may require the Company to transfer cash in an amount necessary to eliminate such margin deficit or repurchase the asset(s) that resulted in the margin call.

In connection with the JPMorgan Chase Facility, the Company guaranteed the payment and performance under the JPMorgan Chase Facility pursuant to a guarantee agreement (the “JPMorgan Chase Guarantee”) subject to a limit of 25% of the then currently unpaid aggregate repurchase price of all purchased assets. The JPMorgan Chase Guarantee includes certain financial covenants required of the Company, including required liquidity, required capital, ratios of total indebtedness to equity and EBITDA requirements. Also, RCC RE, the direct owner of the wholly-owned subsidiary borrower, executed a pledge agreement with JPMorgan Chase pursuant to which it pledged and granted to JPMorgan Chase a continuing security interest in any and all of its right, title and interest in and to the wholly-owned subsidiary, including all distributions, proceeds, payments, income and profits from its interests in the wholly-owned subsidiary.

The JPMorgan Chase Facility specifies events of default, subject to certain materiality thresholds and grace periods, customary for this type of financing arrangement. The remedies for such events of default are also customary for this type of financing arrangement and include the acceleration of the principal amount outstanding under the JPMorgan Chase Facility and the liquidation by JPMorgan Chase of purchased assets then subject to the JPMorgan Chase Facility.

Trust Certificates - Term Repurchase Facilities

In November 2015, a subsidiary entered into a repurchase and securities agreement (the “2015 Term Repurchase Trust Facility 2015”) with RSO Repo SPE Trust 2015, a structure that provides financing under a structured sale of trust certificates to qualified institutional buyers through an offering led by Wells Fargo Securities, LLC (“Wells Fargo Securities”). In July 2018, the 2015 Term Repurchase Trust Facility was paid off as a result of the exercise of the optional redemption of RCC 2015-CRE4.

In September 2017, a subsidiary entered into a repurchase and securities agreement (the “2017 Term Repurchase Trust Facility”) with RSO Repo SPE Trust 2017, a structure that provides financing under a structured sale of trust certificates to qualified institutional buyers through an offering led by Wells Fargo Securities. In July 2019, the Company paid off the outstanding balance of the 2017 Term Repurchase Trust Facility in connection with the redemption of RCC 2017-CRE5.

CMBS - Short-Term Repurchase Agreements

In March 2005, a subsidiary entered into a master repurchase agreement with Deutsche Bank Securities Inc. to finance the purchase of CMBS and the origination of CRE loans. There is no stated maximum amount or maturity date of the facility and the repurchase agreement includes monthly resets of interest rates.

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In February 2012, a subsidiary entered into a master repurchase and securities agreement with Wells Fargo Securities to finance the purchase of CMBS. There is no stated maximum amount of the facility or maturity date and the repurchase agreement includes monthly resets of interest rates. The Company guaranteed the subsidiary's performance of its obligations under the repurchase agreement.

In November 2012, a subsidiary entered into a master repurchase and securities agreement (the "JP Morgan Securities Facility") with JP Morgan Securities LLC to finance the purchase of CMBS. In April 2017, the Company entered into the first amendment of the JP Morgan Securities Facility which amended the minimum shareholder's equity of the guarantor and maximum leverage ratio covenants.

In February 2013, the Company's wholly-owned subsidiary entered into a master repurchase agreement (the "Barclays Capital Facility") with Barclays Capital Inc. to finance the purchase of CMBS. In August 2019, the Company entered into an amendment to the Barclays Capital Facility that updated certain reporting requirements and definitions.

In August 2017, a subsidiary entered into a master repurchase and securities agreement with RBC Capital Markets, LLC to finance the purchase of CMBS.

In October 2019, a subsidiary entered into a master repurchase and securities agreement with RBC (Barbados) Trading Bank Corporation to finance the purchase of CMBS.

CMBS - Term Repurchase Facilities

In February 2011, two of the Company's wholly-owned subsidiaries entered into a master repurchase and securities contract (the "2011 Facility") and a guaranty agreement (the "2011 Guaranty") with Wells Fargo. In March 2018, the Company paid off the 2011 Facility and allowed it to mature on March 31, 2018.

Contractual maturity dates of the Company's borrowings' principal outstanding by category and year are presented in the table below (in thousands):

	Total	2020	2021	2022	2023	2024 and Thereafter
At December 31, 2019:						
CRE securitizations	\$ 752,797	\$ —	\$ —	\$ —	\$ —	\$ 752,797
Unsecured junior subordinated debentures	51,548	—	—	—	—	51,548
4.50% Convertible Senior Notes	143,750	—	—	143,750	—	—
8.00% Convertible Senior Notes	21,182	21,182	—	—	—	—
Repurchase and credit facilities ⁽¹⁾	922,519	600,724	321,795	—	—	—
Total	<u>\$1,891,796</u>	<u>\$ 621,906</u>	<u>\$ 321,795</u>	<u>\$ 143,750</u>	<u>\$ —</u>	<u>\$ 804,345</u>

(1) Includes accrued interest payable in the balances of principal outstanding.

NOTE 11 - SHARE ISSUANCE AND REPURCHASE

In January 2018, the Company redeemed all shares of its 8.50% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") and 930,983 shares of its 8.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") at redemption prices of \$25.00 per share plus accrued but unpaid distributions. The total redemption cost of \$50.0 million was reported as a preferred stock redemption liability on the consolidated balance sheets and a preferred stock redemption charge of \$3.8 million was recognized during the year ended December 31, 2017.

In March 2018, the Company redeemed all remaining shares of its Series B Preferred Stock at a redemption price of \$25.00 per share, or \$115.3 million, plus accrued but unpaid distributions, resulting in a preferred stock redemption charge of \$7.5 million on the consolidated statement of operations for the year ended December 31, 2018.

On or after July 30, 2024, the Company may, at its option, redeem its 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"), in whole or in part, at any time and from time to time, for cash at \$25.00 per share, plus accrued and unpaid dividends, if any, to the redemption date. Effective July 30, 2024 and thereafter, the Company will pay cumulative distributions on the Series C Preferred Stock at a floating rate equal to three-month LIBOR plus a spread of 5.927% per annum based on the \$25.00 liquidation preference, provided that such floating rate shall not be less than the initial rate of 8.625% at any date of determination.

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At December 31, 2019, the Company had 4.8 million shares of Series C Preferred Stock outstanding, with a weighted average offering price, excluding offering costs, of \$25.00.

In March 2016, the Board approved a securities repurchase plan for up to \$50.0 million of its outstanding securities. During the years ended December 31, 2019, 2018 and 2017, the Company did not repurchase any shares of its common or preferred stock through this program. At December 31, 2019, \$44.9 million remains available under this repurchase plan.

NOTE 12 - SHARE-BASED COMPENSATION

In June 2019, the Company's shareholders approved the Exantas Capital Corp. Second Amended and Restated Omnibus Equity Compensation Plan (the "June 2019 Plan"), which amended the May 2014 plan. The June 2019 Plan (i) increased the number of shares authorized for issuance from 3,275,000 shares to 4,775,000 shares; (ii) extended the expiration date from May 2024 to June 2029; and (iii) made other clarifying and updating amendments.

The following table summarizes the Company's restricted common stock transactions:

	Manager	Non-Employee Directors	Non- Employees ⁽¹⁾	Former Employees	Total
Unvested shares at January 1, 2019	—	30,234	386,628	5,809	422,671
Issued	13,307	27,728	196,198	—	237,233
Vested	(13,307)	(30,234)	(175,454)	(5,809)	(224,804)
Forfeited	—	(3,170)	(10,968)	—	(14,138)
Unvested shares at December 31, 2019	<u>—</u>	<u>24,558</u>	<u>396,404</u>	<u>—</u>	<u>420,962</u>

(1) Non-employees are employees of C-III or Resource America, Inc. ("Resource America").

The fair values at grant date of the shares of restricted common stock granted to non-employees during the years ended December 31, 2019, 2018 and 2017 were \$2.0 million, \$2.0 million and \$2.7 million, respectively. The fair values at grant date of the shares of restricted common stock issued to the Company's eight non-employee directors that served at any time during the years ended December 31, 2019, 2018 and 2017 were \$300,000, \$255,000 and \$325,000, respectively.

At December 31, 2019 and 2018, the total unrecognized restricted common stock expense for non-employees was \$1.1 million, with a weighted average amortization period remaining of 1.8 years.

The following table summarizes restricted common stock grants during the year ended December 31, 2019:

Grant Date ⁽¹⁾	Shares ⁽¹⁾	Vesting per Year ⁽¹⁾	Vesting Date(s) ⁽¹⁾
January 22, 2019	196,198	33.3%	January 22, 2020, January 22, 2021 and January 22, 2022
February 1, 2019	3,308	100%	February 1, 2020
March 8, 2019	14,108	100%	March 8, 2020
June 3, 2019	3,164	100%	June 3, 2020
June 6, 2019	3,170	100%	June 6, 2020
June 19, 2019	900	100%	June 19, 2020
September 30, 2019	3,078	100%	September 30, 2020

(1) The restricted stock grant on June 6, 2019 was forfeited during the year ended December 31, 2019.

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The following table summarizes the status of the Company's vested stock options at December 31, 2019:

Vested Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Vested at January 1, 2019	10,000	\$ 25.60		
Vested	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Vested at December 31, 2019	<u>10,000</u>	<u>\$ 25.60</u>	<u>1.38</u>	<u>\$ —</u>

There were no options granted during the years ended December 31, 2019 or 2018. The outstanding stock options have contractual terms of ten years and will expire in 2021.

The components of equity compensation expense for the periods presented are as follows (in thousands):

	Years Ended December 31,		
	2019	2018	2017
Restricted shares granted to non-employees ⁽¹⁾	\$ 1,937	\$ 2,427	\$ 2,456
Restricted shares granted to non-employee directors	276	290	282
Total	<u>\$ 2,213</u>	<u>\$ 2,717</u>	<u>\$ 2,738</u>

(1) Non-employees are employees of C-III or Resource America.

Under the Company's Third Amended and Restated Management Agreement, as amended ("Management Agreement"), incentive compensation is paid quarterly. Up to 75% of the incentive compensation is paid in cash and at least 25% is paid in the form of an award of common stock recorded in management fees on the consolidated statements of operations. During the years ended December 31, 2019 and 2017, the Company incurred incentive compensation payable to the Manager of \$606,000 and \$2.2 million, respectively, of which \$455,000 and \$1.6 million, respectively, was paid or payable in cash and \$151,000 and \$539,000, respectively, representing 13,307 and 51,300 shares, respectively, was paid or payable in common stock. The Manager received no incentive management compensation for the year ended December 31, 2018.

All equity awards, apart from incentive compensation under the Management Agreement, are discretionary in nature and subject to approval by the compensation committee of the Board.

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NOTE 13 - EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted earnings (losses) per common share for the periods presented as follows (dollars in thousands, except per share amounts):

	Years Ended December 31,		
	2019	2018	2017
Net income from continuing operations	\$ 36,217	\$ 27,306	\$ 47,457
Net income allocated to preferred shares	(10,350)	(12,972)	(24,057)
Consideration paid in excess of carrying value of preferred shares	—	(7,482)	(3,803)
Net loss allocable to non-controlling interest, net of taxes	—	—	196
Net income from continuing operations allocable to common shares	<u>25,867</u>	<u>6,852</u>	<u>19,793</u>
Net (loss) income from discontinued operations, net of tax	(251)	121	(14,116)
Net income allocable to common shares	<u>\$ 25,616</u>	<u>\$ 6,973</u>	<u>\$ 5,677</u>
Weighted average number of common shares outstanding:			
Weighted average number of common shares outstanding - basic	<u>31,430,113</u>	<u>31,198,319</u>	<u>30,836,400</u>
Effect of dilutive securities - unvested restricted stock	240,243	184,783	239,387
Weighted average number of common shares outstanding - diluted	<u>31,670,356</u>	<u>31,383,102</u>	<u>31,075,787</u>
Net income per common share - basic:			
Continuing operations	\$ 0.82	\$ 0.22	\$ 0.64
Discontinued operations	—	—	(0.46)
Net income per common share - basic	<u>\$ 0.82</u>	<u>\$ 0.22</u>	<u>\$ 0.18</u>
Net income per common share - diluted:			
Continuing operations	\$ 0.81	\$ 0.22	\$ 0.64
Discontinued operations	—	—	(0.46)
Net income (loss) per common share - diluted	<u>\$ 0.81</u>	<u>\$ 0.22</u>	<u>\$ 0.18</u>

For the Convertible Senior Notes, the Company has the intent and ability to settle the principal amount in cash and intends to settle the conversion feature for the amount above the conversion price, or the conversion spread, if any, in common stock. The Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted earnings per share, if applicable. The conversion spread will have a dilutive impact on diluted earnings per share when the average market price of the Company's common stock for a given period exceeds the conversion price of the Convertible Senior Notes. For the years ended December 31, 2019, 2018 and 2017, the average market price of the Company's common stock did not exceed the conversion price of the Convertible Senior Notes and as such the Convertible Senior Notes have been excluded from the computation of diluted earnings per share. The conversion rate and conversion price for the Convertible Senior Notes are described further in Note 10.

NOTE 14 - DISTRIBUTIONS

For the years ended December 31, 2019, 2018 and 2017, the Company declared and subsequently paid dividends of \$0.95, \$0.475 and \$0.20 per common share, respectively.

In order to qualify as a REIT, the Company must currently distribute at least 90% of its taxable income. In addition, the Company must distribute 100% of its taxable income in order to not be subject to corporate federal income taxes on retained income. The Company anticipates it will distribute substantially all of its taxable income to its stockholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as provisions for loan and lease losses and depreciation), in certain circumstances the Company may generate operating cash flow in excess of its distributions or, alternatively, may be required to borrow funds to make sufficient distribution payments.

The Company's 2020 dividends will be determined by the Company's Board, which will also consider the composition of any dividends declared, including the option of paying a portion in cash and the balance in additional shares of common stock.

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The following tables present dividends declared (on a per share basis) for the years ended December 31, 2019, 2018 and 2017 and for the period from January 1, 2018 through March 26, 2018 with respect to the Company's Series B Preferred Stock:

	Date Paid	Common Stock	
		Total Dividend Paid (in thousands)	Dividend Per Share
2019			
December 31	January 28, 2020	\$ 8,767	\$ 0.275
September 30	October 25	\$ 7,967	\$ 0.25
June 30	July 26	\$ 7,172	\$ 0.225
March 31	April 26	\$ 6,373	\$ 0.20
2018			
December 31	January 25, 2019	\$ 5,540	\$ 0.175
September 30	October 26	\$ 4,749	\$ 0.15
June 30	July 27	\$ 3,165	\$ 0.10
March 31	April 27	\$ 1,584	\$ 0.05
2017			
December 31	January 26, 2018	\$ 1,572	\$ 0.05
September 30	October 27	\$ 1,566	\$ 0.05
June 30	July 28	\$ 1,567	\$ 0.05
March 31	April 27	\$ 1,568	\$ 0.05

	Series A Preferred Stock			Series B Preferred Stock			Series C Preferred Stock		
	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share
2019									
December 31	N/A	N/A	N/A	N/A	N/A	N/A	January 30, 2020	\$ 2,587	\$0.539063
September 30	N/A	N/A	N/A	N/A	N/A	N/A	October 30	\$ 2,588	\$0.539063
June 30	N/A	N/A	N/A	N/A	N/A	N/A	July 30	\$ 2,587	\$0.539063
March 31	N/A	N/A	N/A	N/A	N/A	N/A	April 30	\$ 2,588	\$0.539063
2018									
December 31	N/A	N/A	N/A	N/A	N/A	N/A	January 30, 2019	\$ 2,588	\$0.539063
September 30	N/A	N/A	N/A	N/A	N/A	N/A	October 30	\$ 2,588	\$0.539063
June 30	N/A	N/A	N/A	N/A	N/A	N/A	July 30	\$ 2,588	\$0.539063
March 31	N/A	N/A	N/A	N/A	N/A	N/A	April 30	\$ 2,588	\$0.539063
March 26	N/A	N/A	N/A	March 26	\$ 1,480	\$0.320830	N/A	N/A	N/A
2017									
December 31	January 30, 2018	\$ 568	\$0.531250	January 30, 2018	\$ 2,859	\$0.515625	January 30, 2018	\$ 2,588	\$0.539063
September 30	October 30	\$ 568	\$0.531250	October 30	\$ 2,859	\$0.515625	October 30	\$ 2,588	\$0.539063
June 30	July 31	\$ 568	\$0.531250	July 31	\$ 2,859	\$0.515625	July 31	\$ 2,588	\$0.539063
March 31	May 1	\$ 568	\$0.531250	May 1	\$ 2,859	\$0.515625	May 1	\$ 2,588	\$0.539063

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NOTE 15 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in each component of accumulated other comprehensive income (loss) for the year ended December 31, 2019 (in thousands):

	Net Unrealized (Loss) Gain on Derivatives	Net Unrealized Gain (Loss) on Investment Securities Available-for-Sale	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2019	\$ 563	\$ (3,620)	\$ (3,057)
Other comprehensive (loss) income before reclassifications	(4,471)	9,444	4,973
Amounts reclassified from accumulated other comprehensive income ⁽¹⁾	(91)	(4)	(95)
Balance at December 31, 2019	<u>\$ (3,999)</u>	<u>\$ 5,820</u>	<u>\$ 1,821</u>

(1) Amounts reclassified from accumulated other comprehensive income (loss) are reclassified to interest expense and net realized and unrealized gain on investment securities available-for-sale and loans and derivatives on the Company's consolidated statements of operations.

NOTE 16 - RELATED PARTY TRANSACTIONS

Management Agreement

In March 2005, the Company entered into a Management Agreement, which was amended and restated on December 14, 2017 and last amended on February 20, 2020, with the Manager pursuant to which the Manager provides the day-to-day management of the Company's operations. The Management Agreement requires the Manager to manage the Company's business affairs in conformity with the policies and investment guidelines established by the Company's Board. The Manager provides its services under the supervision and direction of the Company's Board. The Manager is responsible for the selection, purchase and sale of the Company's portfolio investments, its financing activities and providing investment advisory services. The Manager and its affiliates also provides the Company with a Chief Financial Officer and a sufficient number of additional accounting, finance, tax and investor relations professionals. The Manager receives fees and is reimbursed for its expenses as follows:

- A monthly base management fee equal to 1/12th of the amount of the Company's equity multiplied by 1.50%; provided, however that the base management fee was fixed at \$937,500 per month from October 1, 2017 through December 31, 2018. Under the Management Agreement, "equity" is equal to the net proceeds from issuances of shares of capital stock (or the value of common shares upon the conversion of convertible securities), less offering-related costs, plus or minus the Company's retained earnings (excluding non-cash equity compensation incurred in current or prior periods) less all amounts the Company has paid for common stock and preferred stock repurchases. The calculation is adjusted for one-time events due to changes in GAAP, as well as other non-cash charges, upon approval of the Company's independent directors.
- Incentive compensation, calculated quarterly as follows: (A) 20% of the amount by which the Company's core earnings (as defined in the Management Agreement) for a quarter exceeds the product of (i) the weighted average of (x) the per share book value of the Company's common shares at September 30, 2017 (subject to adjustments for certain items of income or loss on operations or gain or loss on resolutions under the Plan from October 1, 2017 through December 31, 2018) and (y) the per share price (including the conversion price, if applicable) paid for the Company's common shares in each offering (or issuance, upon the conversion of convertible securities) by it subsequent to September 30, 2017, multiplied by (ii) the greater of (x) 1.75% and (y) 0.4375% plus one-fourth of the Ten Year Treasury Rate for such quarter; multiplied by (B) the weighted average number of common shares outstanding during such quarter; subject to adjustment (a) to exclude events pursuant to changes in GAAP or the application of GAAP as well as non-recurring or unusual transactions or events, after discussion between the Manager and the independent directors and approval by a majority of the independent directors in the case of non-recurring or unusual transactions or events, and (b) to deduct an amount equal to any fees paid directly by a TRS (or any subsidiary thereof) to employees, agents and/or affiliates of the Manager with respect to profits of such TRS (or subsidiary thereof) generated from the services of such employees, agents and/or affiliates, the fee structure of which shall have been approved by a majority of the independent directors and which fees may not exceed 20% of the net income (before such fees) of such TRS (or subsidiary thereof).
- Per loan underwriting and review fees in connection with valuations of and potential investments in certain subordinate commercial mortgage pass-through certificates, in amounts approved by a majority of the independent directors.

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- Reimbursement of expenses for personnel of our Manager or its affiliates for their services in connection with the making of fixed-rate commercial real estate loans by us, in an amount equal to one percent of the principal amount of each such loan made.
- Reimbursement of out-of-pocket expenses and certain other costs incurred by the Manager and its affiliates that relate directly to the Company and its operations.
- Reimbursement of the Manager's and its affiliates' expenses for (A) wages, salaries and benefits of the Company's Chief Financial Officer, and (B) a portion of the wages, salaries and benefits of accounting, finance, tax and investor relations professionals, in proportion to such personnel's percentage of time allocated to its operations.

Incentive compensation is calculated and payable quarterly to the Manager to the extent it is earned. Up to 75% of the incentive compensation is payable in cash and at least 25% is payable in the form of an award of common stock. The Manager may elect to receive more than 25% in incentive compensation in common stock. All shares are fully vested upon issuance, however, the Manager may not sell such shares for one year after the incentive compensation becomes due and payable unless the Management Agreement is terminated. Shares payable as incentive compensation are valued as follows:

- if such shares are traded on a securities exchange, at the average of the closing prices of the shares on such exchange over the 30-day period ending three days prior to the issuance of such shares;
- if such shares are actively traded over-the-counter, at the average of the closing bid or sales price as applicable over the 30-day period ending three days prior to the issuance of such shares; and
- if there is no active market for such shares, at the fair market value as reasonably determined in good faith by the Board of the Company.

The Management Agreement's current contract term ends on March 31, 2020 and the agreement provides for automatic one year renewals on such date and on each March 31 thereafter until terminated. The Company's Board reviews the Manager's performance annually. The Management Agreement may be terminated annually upon the affirmative vote of at least two-thirds of the Company's independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding shares of its common stock, based upon unsatisfactory performance that is materially detrimental to the Company or a determination by its independent directors that the management fees payable to the Manager are not fair, subject to the Manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees. The Company's Board must provide 180 days' prior notice of any such termination. If the Company terminates the Management Agreement, the Manager is entitled to a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by the Manager during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

The Company may also terminate the Management Agreement for cause with 30 days' prior written notice from its Board. No termination fee is payable in the event of a termination for cause. The Management Agreement defines cause as:

- the Manager's continued material breach of any provision of the Management Agreement following a period of 30 days after written notice thereof;
- the Manager's fraud, misappropriation of funds, or embezzlement against the Company;
- the Manager's gross negligence in the performance of its duties under the Management Agreement;
- the dissolution, bankruptcy or insolvency, or the filing of a voluntary bankruptcy petition, by the Manager; or
- a change of control (as defined in the Management Agreement) of the Manager if a majority of the Company's independent directors determines, at any point during the 18 months following the change of control, that the change of control was detrimental to the ability of the Manager to perform its duties in substantially the same manner conducted before the change of control.

Cause does not include unsatisfactory performance that is materially detrimental to the Company's business.

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The Manager may terminate the Management Agreement at its option, (A) in the event that the Company defaults in the performance or observance of any material term, condition or covenant contained in the Management Agreement and such default continues for a period of 30 days after written notice thereof, or (B) without payment of a termination fee by the Company, if it becomes regulated as an investment company under the Investment Company Act of 1940, with such termination deemed to occur immediately before such event.

Relationship with C-III and certain of its Subsidiaries

Relationship with C-III and certain of its Subsidiaries. The Manager is a wholly-owned subsidiary of Resource America, which is a wholly-owned subsidiary of C-III, a leading CRE investment management and services company engaged in a broad range of activities, including fund management, CDO management, principal investment, zoning due diligence, investment sales and multifamily property management and previously primary and special loan servicing and loan origination. C-III is indirectly controlled and partially owned by Island Capital Group LLC (“Island Capital”), of which Andrew L. Farkas, the Company’s Chairman, is the managing member. Mr. Farkas is also chairman and chief executive officer of C-III. In addition, Robert C. Lieber, the Company’s Chief Executive Officer, and Matthew J. Stern, the Company’s President, are executive managing directors of both C-III and Island Capital. Jeffrey P. Cohen, who is a member of the Company’s Board, is president of both C-III and Island Capital. These officers and the Company’s other executive officers are also officers of the Company’s Manager, Resource America, C-III and/or affiliates of those companies. At December 31, 2019, C-III was the beneficial owner of 780,025, or 2.4%, of the Company’s outstanding common stock.

The Company has entered into a Management Agreement, amended and restated on December 14, 2017 and as amended to date, with the Manager pursuant to which the Manager provides the day-to-day management of the Company’s operations and receives substantial fees. For the years ended December 31, 2019, 2018 and 2017, the Manager earned base management fees of \$8.3 million, \$11.3 million and \$10.8 million, respectively. For the years ended December 31, 2019 and 2017, the Manager earned incentive compensation of \$606,000 and \$2.2 million, respectively, of which \$455,000 and \$1.6 million, respectively, was paid or payable in cash and \$151,000 and \$539,000, respectively, was paid or payable in common stock. No incentive compensation was earned for the year ended December 31, 2018. At December 31, 2019 and 2018, \$701,000 and \$938,000, respectively, of base management fees were payable by the Company to the Manager. There was no incentive compensation payable at December 31, 2019 and 2018. The Manager and its affiliates provide the Company with a Chief Financial Officer and a sufficient number of additional accounting, finance, tax and investor relations professionals. The Company reimburses the Manager’s and its affiliates’ expenses for (a) the wages, salaries and benefits of the Chief Financial Officer, (b) a portion of the wages, salaries and benefits of accounting, finance, tax and investor relations professionals, in proportion to such personnel’s percentage of time allocated to the Company’s operations, and (c) personnel principally devoted to the Company’s ancillary operating subsidiaries. The Company reimburses out-of-pocket expenses and certain other costs incurred by the Manager and its affiliates that relate directly to the Company’s operations. For the years ended December 31, 2019, 2018 and 2017, the Company reimbursed the Manager \$4.2 million, \$5.0 million and \$5.7 million, respectively, for all such compensation and costs. At December 31, 2019 and 2018, the Company had payables to Resource America and its subsidiaries pursuant to the Management Agreement totaling approximately \$1.1 million and \$333,000, respectively. The Company’s base management fee payable and expense reimbursements payable are recorded in management fee payable and accounts payable and other liabilities on the consolidated balance sheets, respectively.

At December 31, 2019, the Company retained equity in five securitization entities that were structured for the Company by the Manager, although three of the securitization entities were substantially liquidated as of December 31, 2019. Under the Management Agreement, the Manager was not separately compensated by the Company for executing these transactions and is not separately compensated for managing the securitizations entities and their assets.

Relationship with Resource Real Estate, LLC. Resource Real Estate, LLC (“Resource Real Estate”), an indirect wholly-owned subsidiary of Resource America and C-III, originates, finances and manages the Company’s CRE loan portfolio. The Company reimburses Resource Real Estate for loan origination costs associated with all loans originated. At December 31, 2019 and 2018, the Company had net receivables from Resource Real Estate for loan deposits of \$101,000 and \$26,000, respectively.

Resource Real Estate served as special servicer for the following liquidated real estate securitization transactions, which provided financing for CRE loans: (i) RCC 2014-CRE2, a \$353.9 million securitization that closed in July 2014 and liquidated in August 2017; (ii) RCC 2015-CRE3, a \$346.2 million securitization that closed in February 2015 and liquidated in August 2018; (iii) RCC 2015-CRE4, a \$312.9 million securitization that closed in August 2015 and liquidated in July 2018; and (iv) RCC 2017-CRE5, a \$376.7 million securitization that closed in July 2017 and liquidated in July 2019. Resource Real Estate did not earn any special servicing fees during the years ended December 31, 2019, 2018 and 2017.

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Relationship with C-III Commercial Mortgage LLC and C3AM. In May 2019, RCC RE entered into a Mortgage Loan Sale and Purchase Agreement (the “May 2019 Loan Acquisition Agreement”) with C-III Commercial Mortgage LLC (“C-III Commercial Mortgage”), a wholly-owned subsidiary of C-III, that provided for the acquisition by RCC RE of certain CRE loans on a servicing-released basis at par, plus accrued and unpaid interest on each loan for an aggregate purchase price of \$197.6 million. In accordance with the terms of the May 2019 Loan Acquisition Agreement, C-III Commercial Mortgage retains its title to all exit fees in excess of 0.50% of the outstanding principal balance. During the year ended December 31, 2019, C-III Commercial Mortgage earned approximately \$108,000 in exit fees. The Company had no outstanding payables to C-III Commercial Mortgage at December 31, 2019.

C3AM served as the primary servicer for the CRE loans acquired in the May 2019 Loan Acquisition Agreement and for the CRE loans collateralizing RCC 2017-CRE5, XAN 2018-RSO6, a \$514.2 million securitization that closed in June 2018, and XAN 2019-RSO7, a \$687.2 million securitization that closed in April 2019. C3AM received servicing fees, payable monthly on an asset-by-asset basis. C3AM served as special servicer for C40, XAN 2018-RSO6 and XAN 2019-RSO7, under which it received a base special servicing fee. During the years ended December 31, 2019, 2018 and 2017, C3AM earned approximately \$565,000, \$321,000 and \$96,000, respectively. The Company had payables to C3AM of approximately \$37,000 and \$26,000 at December 31, 2019 and 2018, respectively.

On December 31, 2019, C3AM was sold by C-III to an unaffiliated third party. As such, C3AM is no longer a related party under common control effective January 1, 2020.

In October 2017, C-III Commercial Mortgage contributed loans to collateralize C40, amounting to 10.2% of the total collateral pool value to the securitization.

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the Company’s financial instruments carried at fair value on a recurring basis based upon the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
At December 31, 2019:				
Assets:				
Investment securities available-for-sale	\$ —	\$ —	\$ 520,714	\$ 520,714
Derivatives	—	30	—	30
Total assets at fair value	<u>\$ —</u>	<u>\$ 30</u>	<u>\$ 520,714</u>	<u>\$ 520,744</u>
Liabilities:				
Derivatives	\$ —	\$ 4,558	\$ —	\$ 4,558
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 4,558</u>	<u>\$ —</u>	<u>\$ 4,558</u>
At December 31, 2018:				
Assets:				
Investment securities available-for-sale	\$ —	\$ —	\$ 418,998	\$ 418,998
Derivatives	—	985	—	985
Total assets at fair value	<u>\$ —</u>	<u>\$ 985</u>	<u>\$ 418,998</u>	<u>\$ 419,983</u>
Liabilities:				
Derivatives	\$ —	\$ 1,043	\$ —	\$ 1,043
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 1,043</u>	<u>\$ —</u>	<u>\$ 1,043</u>

In accordance with guidance on fair value measurements and disclosures, the Company is not required to disclose quantitative information with respect to unobservable inputs contained in fair value measurements that are not developed by the Company. As a consequence, the Company has not disclosed such information associated with fair values obtained for investment securities available-for-sale and derivatives from third-party pricing sources.

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The following table presents additional information about the Company's assets that are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs (in thousands):

	CMBS
Balance, January 1, 2019	\$ 418,998
Included in earnings	2,688
Purchases	146,521
Sales	(638)
Paydowns ⁽¹⁾	(56,295)
Included in OCI	9,440
Balance, December 31, 2019	<u>\$ 520,714</u>

(1) Includes non-cash adjustments in connection with the recalculation of the accretable yield on certain interest-only CMBS.

The Company reports certain assets held for sale and indemnification liabilities as financial instruments that are carried at fair value on a nonrecurring basis on its consolidated balance sheets. The following table summarizes the Company's financial instruments measured at fair value on a nonrecurring basis based upon the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
At December 31, 2019:				
Assets:				
Asset held for sale	\$ —	\$ —	\$ 16,500	\$ 16,500
Total assets at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,500</u>	<u>\$ 16,500</u>
Liabilities:				
Pearlmark Mezz indemnification	\$ —	\$ —	\$ 56	\$ 56
Total liabilities at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 56</u>	<u>\$ 56</u>
At December 31, 2018:				
Assets:				
Legacy CRE loan held for sale	\$ —	\$ —	\$ 17,000	\$ 17,000
Total assets at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17,000</u>	<u>\$ 17,000</u>
Liabilities:				
Pearlmark Mezz indemnification	\$ —	\$ —	\$ 703	\$ 703
Total liabilities at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 703</u>	<u>\$ 703</u>

To measure the fair value of a legacy CRE loan held for sale, the Company primarily uses appraisals obtained from third-parties as a practical expedient. The Company may also use the present value of estimated cash flows, market price, if available, or other determinants of the fair value of the collateral less estimated disposition costs.

At December 31, 2018, the Company had one legacy CRE loan held for sale remaining with value, equal to \$17.0 million. In November 2019, the Company foreclosed on the loan, and obtained ownership of the underlying property, which remains classified as an asset held for sale on the consolidated balance sheets, recorded at the lower of cost or fair market value. An appraisal received on the property in February 2020 concluded its fair value, less estimated costs to sell, was \$16.5 million, the effect of which was recorded as of December 31, 2019. The terminal capitalization rate used in the updated appraisal received in February 2020 was 9.25% at December 31, 2019.

During the years ended December 31, 2019, 2018 and 2017, the Company recorded losses on the remaining CRE asset held for sale of \$4.7 million, \$7.2 million and \$1.9 million, respectively, including protective advances to cover borrower operating losses of \$1.2 million, \$1.7 million and \$442,000, respectively, recorded in fair value adjustments on financial assets held for sale on the consolidated statements of operations. The loss during the year ended December 31, 2019 was primarily attributable to two fair value charges: a \$2.2 million fair value charge in connection with the February 2020 appraisal and a \$1.3 million fair value charge in connection with the receipt of three June 2019 brokers' opinions of value, the average of which were taken into account equally along with an appraisal received in February 2019.

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The Company's Pearlmark Mezz indemnification was valued by a third-party valuation service.

The Company is required to disclose the fair value of financial instruments for which it is practicable to estimate that value. The fair values of the Company's short-term financial instruments such as cash and cash equivalents, restricted cash, accrued interest receivable, principal paydowns receivable, accrued interest payable and distributions payable approximate their carrying values on the consolidated balance sheets. The fair values of the Company's investment securities available-for-sale are reported in Note 8. The fair values of the Company's derivative instruments are reported in Note 18.

The fair values of the Company's loans held for investment are measured by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Par values of loans with variable interest rates are expected to approximate fair value. Fair values of loans with fixed rates are calculated using the net present values of future cash flows, discounted at market rates. The Company's CRE loans had variable interest rates from 4.45% to 7.96% and 5.08% to 8.63% at December 31, 2019 and 2018, respectively.

The fair value of the Company's mezzanine loan is measured by discounting the expected cash flows using the future expected coupon rate. The Company's mezzanine loan is discounted at a rate of 10.00%.

The fair value of the Company's preferred equity investments are measured by discounting the expected cash flows using the future expected coupon rates. The Company's preferred equity investments are discounted at a rate of 12.08% and 11.54%.

Senior notes in CRE securitizations are valued using third-party pricing sources.

The fair values of the junior subordinated notes RCT I and RCT II are estimated by using a discounted cash flow model with discount rates of 8.99%.

The fair value of the convertible notes is determined using a discounted cash flow model that discounts the expected future cash flows using current interest rates on similar debts that do not have a conversion option. The 8.00% Convertible Senior Notes were discounted at a rate of 9.13% and the 4.50% Convertible Senior Notes are discounted at a rate of 7.43%.

Repurchase agreements are variable rate debt instruments indexed to LIBOR that reset periodically and, as a result, their carrying value approximates their fair value, excluding deferred debt issuance costs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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The fair values of the Company's remaining financial instruments that are not reported at fair value on the consolidated balance sheets are reported in the following table (in thousands):

	Carrying Value	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets of Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2019:					
Assets:					
CRE whole loans held for investment	\$ 1,759,137	\$ 1,768,322	\$ —	\$ —	\$ 1,768,322
CRE mezzanine loan	\$ 4,700	\$ 4,700	\$ —	\$ —	\$ 4,700
CRE preferred equity investment	\$ 26,148	\$ 26,237	\$ —	\$ —	\$ 26,237
Asset held for sale	\$ 16,500	\$ 16,500	\$ —	\$ —	\$ 16,500
Liabilities:					
Senior notes in CRE securitizations	\$ 746,438	\$ 754,023	\$ —	\$ —	\$ 754,023
Junior subordinated notes	\$ 51,548	\$ 25,831	\$ —	\$ —	\$ 25,831
Convertible senior notes	\$ 154,786	\$ 164,932	\$ —	\$ —	\$ 164,932
Repurchase agreements	\$ 919,805	\$ 922,519	\$ —	\$ —	\$ 922,519
At December 31, 2018:					
Assets:					
CRE whole loans held for investment	\$ 1,527,712	\$ 1,538,759	\$ —	\$ —	\$ 1,538,759
CRE mezzanine loan	\$ 4,700	\$ 4,700	\$ —	\$ —	\$ 4,700
CRE preferred equity investment	\$ 19,555	\$ 19,718	\$ —	\$ —	\$ 19,718
Legacy CRE loan held for sale	\$ 17,000	\$ 17,000	\$ —	\$ —	\$ 17,000
Liabilities:					
Senior notes in CRE securitizations	\$ 501,045	\$ 498,897	\$ —	\$ —	\$ 498,897
Junior subordinated notes	\$ 51,548	\$ 27,800	\$ —	\$ —	\$ 27,800
Convertible senior notes	\$ 151,190	\$ 164,932	\$ —	\$ —	\$ 164,932
Repurchase agreements	\$ 850,440	\$ 855,783	\$ —	\$ —	\$ 855,783

NOTE 18 - MARKET RISK AND DERIVATIVE INSTRUMENTS

The Company is affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as "market risks." When deemed appropriate, the Company uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risk managed by the Company through the use of derivative instruments is interest rate risk.

The Company may hold various derivatives in the ordinary course of business, including interest rate swaps. Interest rate swaps are contracts between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices.

A significant market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Company's interest-earning assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Company's interest-earning assets pledged as collateral for borrowings could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

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The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. The Company seeks to mitigate the potential impact on net income of adverse fluctuations in interest rates incurred on its borrowings by entering into hedging agreements.

The Company classifies its interest rate risk hedges as cash flow hedges, which are hedges that eliminate the risk of changes in the cash flows of a financial asset or liability. The Company records changes in fair value of derivatives designated and effective as cash flow hedges in accumulated other comprehensive income (loss), and records changes in fair value of derivatives designated and ineffective as cash flow hedges in earnings.

At December 31, 2019 and 2018, the Company had 19 and 16, respectively, interest rate swap contracts outstanding whereby the Company paid a weighted average fixed rate of 2.47% and 2.54%, respectively, and received a variable rate equal to one-month LIBOR. The aggregate notional amount of these contracts was \$90.2 million and \$81.1 million at December 31, 2019 and 2018, respectively. The counterparty for the Company's designated interest rate hedge contracts at December 31, 2019 and 2018 was Wells Fargo.

At December 31, 2019 and 2018, the estimated fair value of the Company's assets related to interest rate swaps was \$30,000 and \$985,000, respectively. At December 31, 2019 and 2018, the estimated fair value of the Company's liabilities related to interest rate swaps was \$4.6 million and \$1.0 million, respectively. The Company had aggregate unrealized losses of \$4.0 million at December 31, 2019 and aggregate unrealized gains of \$563,000 at December 31, 2018 on the interest rate swaps, which were recorded in accumulated other comprehensive income (loss) on the consolidated balance sheets.

At December 31, 2019 and 2018, the Company had an unrealized gain of \$530,000 and \$621,000, respectively, attributable to two terminated interest rate swaps in accumulated other comprehensive income (loss) on the consolidated balance sheets, to be accreted into earnings over the remaining life of the debt. The Company recorded accretion income, reported in interest expense on the consolidated statements of operations, of \$91,000 and \$22,000 into earnings during the years ended December 31, 2019 and 2018, respectively.

In April 2016, an interest rate swap contract was terminated at the Company's request, resulting in an unrealized loss that was amortized into interest expense over the remaining life of the swap term. The Company recognized interest expense of \$18,000 during the year ended December 31, 2017 to fully amortize the accumulated other comprehensive loss on the terminated swap agreement.

The Company had a master netting agreement with Wells Fargo at December 31, 2019. Regulations promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 mandate that the Company clear certain new interest rate swap transactions through a central counterparty. Transactions that are centrally cleared result in the Company facing a clearing house, rather than a swap dealer, as counterparty. Central clearing requires the Company to post collateral in the form of initial and variation margin to satisfy potential future obligations. At December 31, 2019 and 2018, the Company had centrally cleared interest rate swap contracts with a fair value in an asset position of \$30,000 and \$985,000, respectively. At December 31, 2019 and 2018, the Company had centrally cleared interest rate swap contracts with a fair value in a liability position of \$4.6 million and \$1.0 million, respectively.

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The following tables present the fair value of the Company's derivative financial instruments at December 31, 2019 and 2018 on the Company's consolidated balance sheets and the related effect of the derivative instruments on the consolidated statements of operations during the years ended December 31, 2019, 2018 and 2017:

Fair Value of Derivative Instruments (in thousands)

At December 31, 2019	Asset Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging ⁽¹⁾	\$ 2,630	Derivatives, at fair value	\$ 30
		Liability Derivatives	
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging ⁽¹⁾	\$ 87,551	Derivatives, at fair value	\$ 4,558
Interest rate swap contracts, hedging	\$ 90,181	Accumulated other comprehensive income (loss)	\$ (3,999)
At December 31, 2018	Asset Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging ⁽¹⁾	\$ 31,725	Derivatives, at fair value	\$ 985
		Liability Derivatives	
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging ⁽¹⁾	\$ 49,326	Derivatives, at fair value	\$ 1,043
Interest rate swap contracts, hedging	\$ 81,051	Accumulated other comprehensive income (loss)	\$ 563

(1) Interest rate swap contracts are accounted for as cash flow hedges.

The Effect of Derivative Instruments on the Consolidated Statements of Operations (in thousands)

Year Ended December 31, 2019	Derivatives	
	Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) ⁽¹⁾
Interest rate swap contracts, hedging	Interest expense	\$ (138)
Year Ended December 31, 2018	Derivatives	
	Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) ⁽¹⁾
Interest rate swap contracts, hedging	Interest expense	\$ (169)
Year Ended December 31, 2017	Derivatives	
	Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) ⁽¹⁾
Interest rate swap contracts, hedging	Interest expense	\$ (130)
Forward contracts - foreign currency, hedging	Net realized and unrealized gain (loss) on investment securities available-for-sale and loans and derivatives	\$ (1,896)

(1) Negative values indicate a decrease to the associated consolidated statements of operations line items.

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NOTE 19 - OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following table presents a summary of the Company's offsetting of derivative assets (in thousands):

	(i) Gross Amounts of Recognized Assets	(ii) Gross Amounts Offset on the Consolidated Balance Sheets	(iii) = (i) - (ii) Net Amounts of Assets Presented on the Consolidated Balance Sheets	(iv) Gross Amounts Not Offset on the Consolidated Balance Sheets		(v) = (iii) - (iv) Net Amount
				Financial Instruments	Cash Collateral Pledged	
At December 31, 2019:						
Derivatives, at fair value	\$ 30	\$ —	\$ 30	\$ —	\$ —	\$ 30
At December 31, 2018:						
Derivatives, at fair value	\$ 985	\$ —	\$ 985	\$ —	\$ —	\$ 985

The following table presents a summary of the Company's offsetting of financial liabilities and derivative liabilities (in thousands, except amounts in footnotes):

	(i) Gross Amounts of Recognized Liabilities	(ii) Gross Amounts Offset on the Consolidated Balance Sheets	(iii) = (i) - (ii) Net Amounts of Liabilities Presented on the Consolidated Balance Sheets	(iv) Gross Amounts Not Offset on the Consolidated Balance Sheets		(v) = (iii) - (iv) Net Amount
				Financial Instruments ⁽¹⁾	Cash Collateral Pledged	
At December 31, 2019:						
Derivatives, at fair value ⁽²⁾	\$ 4,558	\$ —	\$ 4,558	\$ —	\$ 4,558	\$ —
Repurchase agreements and term facilities ⁽³⁾	919,805	—	919,805	915,041	4,764	—
Total	<u>\$ 924,363</u>	<u>\$ —</u>	<u>\$ 924,363</u>	<u>\$ 915,041</u>	<u>\$ 9,322</u>	<u>\$ —</u>
At December 31, 2018:						
Derivatives, at fair value ⁽²⁾	\$ 1,043	\$ —	\$ 1,043	\$ —	\$ 1,043	\$ —
Repurchase agreements and term facilities ⁽³⁾	850,440	—	850,440	850,440	—	—
Total	<u>\$ 851,483</u>	<u>\$ —</u>	<u>\$ 851,483</u>	<u>\$ 850,440</u>	<u>\$ 1,043</u>	<u>\$ —</u>

(1) Amounts represent financial instruments pledged that are available to be offset against liability balances associated with term facilities, repurchase agreements and derivatives.

(2) The Company posted excess cash collateral of \$4.6 million and \$1.3 million related to interest rate swap contracts outstanding at December 31, 2019 and 2018, respectively.

(3) The combined fair value of securities and loans pledged against the Company's various repurchase agreements and term facilities was \$1.2 billion at each of December 31, 2019 and 2018.

All balances associated with repurchase agreements and derivatives are presented on a gross basis on the Company's consolidated balance sheets.

Certain of the Company's repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

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NOTE 20 - INCOME TAXES

The following table details the components of income taxes (in thousands):

	Years Ended December 31,		
	2019	2018	2017
Income tax (benefit) expense:			
Current:			
Federal	\$ —	\$ —	\$ 994
State	—	(316)	856
Total current	—	(316)	1,850
Deferred:			
Federal	—	(27)	3,475
State	—	—	1,288
Total deferred	—	(27)	4,763
Total	<u>\$ —</u>	<u>\$ (343)</u>	<u>\$ 6,613</u>

A reconciliation of the income tax (benefit) expense based upon the statutory tax rate to the effective income tax rate was as follows for the years presented (in thousands):

	Years Ended December 31,		
	2019	2018	2017
Income tax (benefit) expense:			
Statutory tax	\$ 6	\$ (220)	\$ 9,301
State and local taxes, net of federal benefit	2,716	(1,007)	1,415
Permanent adjustments	—	(3)	37
True-up of prior period tax expense	816	(4)	(2,010)
Valuation allowance	(5,402)	5,348	(2,203)
Tax reform	—	—	4,918
Tax reform - valuation allowance	—	—	(4,918)
Discontinued operations adjustment	863	(4,344)	—
Other items	1,001	(113)	73
Total	<u>\$ —</u>	<u>\$ (343)</u>	<u>\$ 6,613</u>

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The components of deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2019	2018
Deferred tax assets related to:		
Federal, state and local loss carryforwards	\$ 7,026	\$ 9,847
Accrued expenses	27	106
Charitable contribution carryforward	16	13
Amortization of intangibles	466	406
Unrealized gains	662	1,721
Capital loss carryforward	2,736	—
Partnership investment	—	3,385
Total deferred tax assets	10,933	15,478
Valuation allowance	(9,883)	(15,285)
Total deferred tax assets, net of valuation allowance	\$ 1,050	\$ 193
Deferred tax liabilities related to:		
Investment in securities	\$ (1,050)	\$ (193)
Total deferred tax liabilities	\$ (1,050)	\$ (193)
Deferred tax assets, net	\$ —	\$ —

At December 31, 2019 and 2018, the Company had \$58.5 million and \$59.4 million, respectively, of total gross federal and \$1.5 million and \$3.6 million, respectively, of total gross state and local net operating tax loss carryforwards. The Company had full valuation allowances on its total gross federal, state and local net operating tax loss carryforwards as of December 31, 2019 and 2018.

At December 31, 2019 and 2018, the Company had \$28.0 million and \$33.4 million, respectively, of gross federal and \$1.5 million and \$3.6 million, respectively, of gross state and local net operating tax loss carryforwards (a collective deferred tax asset of \$7.0 million and \$9.8 million, respectively) reported in other assets in the Company's consolidated balance sheets. The Company also generated a gross capital loss carryforward of \$13.0 million in 2019 (tax effected expense of \$2.7 million). Due to changes in management's focus regarding the non-core asset classes, the Company determined that it no longer expected to have sufficient forecasted taxable income to completely realize the tax benefits of the deferred tax assets at December 31, 2019 and 2018. Therefore, a gross valuation allowance of \$32.9 million and \$58.4 million (tax effected expense of \$9.9 million and \$15.3 million) has been recorded against the deferred tax asset at December 31, 2019 and 2018, respectively. Management will continue to assess its estimate of the amount of deferred tax assets that the Company will be able to utilize.

At December 31, 2019 and 2018, the Company had \$30.5 million and \$26.0 million, respectively, of gross federal net operating tax loss carryforwards (deferred tax asset of \$6.5 million and \$5.5 million, respectively), on which the Company recorded a full valuation allowance, reported in assets held for sale in the Company's consolidated balance sheets.

The Company is subject to examination by the Internal Revenue Service for calendar years including and subsequent to 2017, and is subject to examination by state and local jurisdictions for calendar years including and subsequent to 2015.

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NOTE 21 - QUARTERLY RESULTS

The following is a presentation of the quarterly results of operations:

	<u>March 31</u> (unaudited)	<u>June 30</u> (unaudited)	<u>September 30</u> (unaudited)	<u>December 31</u> (unaudited)
	(in thousands, except per share data)			
Year ended December 31, 2019:				
Interest income	\$ 33,932	\$ 37,138	\$ 39,292	\$ 34,524
Interest expense	19,395	21,581	22,712	20,149
Net interest income	<u>\$ 14,537</u>	<u>\$ 15,557</u>	<u>\$ 16,580</u>	<u>\$ 14,375</u>
Net income from continuing operations	<u>\$ 8,170</u>	<u>\$ 9,003</u>	<u>\$ 12,620</u>	<u>\$ 6,424</u>
Net loss from discontinued operations	<u>(37)</u>	<u>(112)</u>	<u>(63)</u>	<u>(39)</u>
Net income	8,133	8,891	12,557	6,385
Net income allocated to preferred shares	(2,588)	(2,587)	(2,588)	(2,587)
Net income allocable to common shares	<u>\$ 5,545</u>	<u>\$ 6,304</u>	<u>\$ 9,969</u>	<u>\$ 3,798</u>
Net income per common share from continuing operations - basic	\$ 0.18	\$ 0.20	\$ 0.32	\$ 0.12
Net loss per common share from discontinued operations - basic	—	—	—	—
Total net income per common share - basic	<u>\$ 0.18</u>	<u>\$ 0.20</u>	<u>\$ 0.32</u>	<u>\$ 0.12</u>
Net income per common share from continuing operations - diluted	\$ 0.18	\$ 0.20	\$ 0.31	\$ 0.12
Net loss per common share from discontinued operations - diluted	—	—	—	—
Total net income per common share - diluted	<u>\$ 0.18</u>	<u>\$ 0.20</u>	<u>\$ 0.31</u>	<u>\$ 0.12</u>
	<u>March 31</u> (unaudited)	<u>June 30</u> (unaudited)	<u>September 30</u> (unaudited)	<u>December 31</u> (unaudited)
	(in thousands, except per share data)			
Year ended December 31, 2018:				
Interest income ⁽¹⁾	\$ 25,957	\$ 29,660	\$ 31,836	\$ 35,326
Interest expense ⁽¹⁾	14,384	16,159	17,322	19,751
Net interest income	<u>\$ 11,573</u>	<u>\$ 13,501</u>	<u>\$ 14,514</u>	<u>\$ 15,575</u>
Net (loss) income from continuing operations	<u>\$ (137)</u>	<u>\$ 9,189</u>	<u>\$ 8,260</u>	<u>\$ 9,994</u>
Net income (loss) from discontinued operations	<u>247</u>	<u>(450)</u>	<u>364</u>	<u>(40)</u>
Net income	110	8,739	8,624	9,954
Net income allocated to preferred shares	(5,210)	(2,587)	(2,588)	(2,587)
Carrying value less than consideration paid for preferred shares	<u>(7,482)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net (loss) income allocable to common shares	<u>\$ (12,582)</u>	<u>\$ 6,152</u>	<u>\$ 6,036</u>	<u>\$ 7,367</u>
Net (loss) income per common share from continuing operations - basic	\$ (0.41)	\$ 0.21	\$ 0.18	\$ 0.24
Net income (loss) per common share from discontinued operations - basic	0.01	(0.01)	0.01	—
Total net (loss) income per common share - basic	<u>\$ (0.40)</u>	<u>\$ 0.20</u>	<u>\$ 0.19</u>	<u>\$ 0.24</u>
Net (loss) income per common share from continuing operations - diluted	\$ (0.41)	\$ 0.21	\$ 0.18	\$ 0.23
Net income (loss) per common share from discontinued operations - diluted	0.01	(0.01)	0.01	—
Total net (loss) income per common share - diluted	<u>\$ (0.40)</u>	<u>\$ 0.20</u>	<u>\$ 0.19</u>	<u>\$ 0.23</u>

(1) Certain reclassifications have been made to the 2018 consolidated financial statements, including the impact of discontinued operations.

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NOTE 22 - COMMITMENTS AND CONTINGENCIES

The Company may become involved in litigation on various matters due to the nature of the Company's business activities. The resolution of these matters may result in adverse judgments, fines, penalties, injunctions and other relief against the Company as well as monetary payments or other agreements and obligations. In addition, the Company may enter into settlements on certain matters in order to avoid the additional costs of engaging in litigation. Except as discussed below, the Company is unaware of any contingencies arising from such litigation that would require accrual or disclosure in the consolidated financial statements at December 31, 2019.

Primary Capital Mortgage, LLC ("PCM") is subject to potential litigation related to claims for repurchases or indemnifications on loans that PCM has sold to third parties. At December 31, 2019 and 2018, no such litigation demand was outstanding. Reserves for such potential litigation demands are included in the reserve for mortgage repurchases and indemnifications that totaled \$1.7 million at December 31, 2019 and 2018. The reserves for mortgage repurchases and indemnifications are included in liabilities held for sale on the consolidated balance sheets.

Settled and Dismissed Litigation Matters

In April 2018, the Company funded \$2.0 million into escrow in connection with the proposed settlement of outstanding litigation, which was settled in August 2018. The Company did not have any general litigation reserve at December 31, 2019 or 2018.

The Company previously disclosed a securities litigation against the Company and certain of its current and former officers and directors titled *Levin v. Resource Capital Corp.* (the "Levin Action"). On February 5, 2018, the Company entered into a stipulation and agreement of settlement (the "Levin Action Settlement Agreement"), which received final approval from the United States District Court for the Southern District of New York (the "Court") on August 3, 2018. The Levin Action Settlement Agreement settled all claims asserted in the action on behalf of the certified class (the "Settlement"), which consisted, with specified exceptions, of all persons who purchased the Company's common stock, Series B Preferred Stock or Series C Preferred Stock between October 31, 2012 and August 5, 2015. Under the terms of the Levin Action Settlement Agreement, a payment of \$9.5 million was made to settle the litigation. The settlement payment was funded principally by insurance coverage. In exchange for the settlement consideration, the Company and the individual defendants in the Levin Action (and certain related parties) have been released from all claims that have been or could have been asserted in the case by class members (and certain related parties), excluding one holder of less than 500 shares who opted out of the Settlement. The terms of the Settlement and release of claims are described in greater detail in the Levin Action Settlement Agreement filed with the Court and the Final Judgment and Order of Dismissal with Prejudice entered by the Court on August 3, 2018. The Levin Action Settlement Agreement contains no admission of misconduct by the Company or any of the individual defendants and expressly acknowledges that the Company and the individual defendants deny all allegations of wrongdoing and maintain that it and they have at all times acted in good faith and in compliance with the law.

The Company previously disclosed two consolidated shareholder derivative actions filed in the Court that purported to assert claims on behalf of the Company similar to the claims in the New York State Actions (defined below) (collectively, the "Federal Actions"): (a) by shareholders who declined to make a demand on the Board prior to filing suit (the "Federal Demand Futile Actions"), which comprised a suit filed in January 2017 (the "Greenberg Action"), and another suit filed in January 2017 (the "DeCaro Action") and (b) by shareholders who served demands on the Board to bring litigation and allege that their demands were wrongfully refused (the "Federal Demand Refused Actions"), which comprised a suit filed in February 2017 (the "McKinney Action"), a suit filed in March 2017 (the "Sherek/Spiegel Action") and a suit filed in April 2017 (the "Sebenoler Action"). In January 2019, the parties to the Federal Actions executed a stipulation and agreement of settlement (the "Federal Actions Settlement Agreement"), which received final approval from the Court on May 17, 2019. Under the Federal Actions Settlement Agreement, the Company agreed to implement certain corporate governance changes and paid \$550,000 in plaintiffs' attorneys' fees, funded by the Company's insurers. In exchange for the settlement consideration, the defendants were released from liability for certain claims, including all claims asserted in the Federal Actions. Among other terms and conditions, the Federal Actions Settlement Agreement provided that the defendants deny any and all allegations of wrongdoing and maintained that they have acted lawfully and in accordance with their fiduciary duties at all times.

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2019

The Company previously disclosed six separate, additional shareholder derivative suits filed in the Supreme Court of New York purporting to assert claims on behalf of the Company (the “New York State Actions”) that were filed on the following dates: December 2015 (the “Reaves Action”); February 2017 (the “Caito Action”); March 2017 (the “Simpson Action”); March 2017 (the “Heckel Action”); May 2017 (the “Schwartz Action”); and August 2017 (the “Greff Action”). Plaintiffs in the Schwartz Action and Greff Action made demands on the Company’s Board before filing suit, but plaintiffs in the Reaves Action, Caito Action, Simpson Action and Heckel Action did not. All of the shareholder derivative suits were substantially similar and alleged that certain of the Company’s current and former officers and directors breached their fiduciary duties, wasted corporate assets and/or were unjustly enriched. Certain complaints asserted additional claims against the Manager and Resource America for unjust enrichment based on allegations that the Manager received excessive management fees from the Company. In June 2019 and July 2019, the Schwartz Action and Greff Action, respectively, were dismissed. In October 2019, the four remaining New York State Actions were dismissed.

The Company previously disclosed another shareholder derivative action filed in the United States District Court for the District of Maryland against certain of the Company’s former officers and directors and the Manager (the “Hafkey Action”). The complaint asserted a breach of fiduciary duty claim that was substantially similar to the claims at issue in the Federal Actions. In May 2019, the plaintiff in the Hafkey Action voluntarily dismissed his suit in light of the settlement and dismissal of the Federal Actions.

The Company previously disclosed another shareholder derivative action filed in the Maryland Circuit Court against certain of the Company’s current and former officers and directors, as well as the Manager and Resource America (the “Canoles Action”). The complaint (as amended) in the Canoles Action asserted a variety of claims, including claims for breach of fiduciary duty, unjust enrichment and corporate waste, which were based on allegations substantially similar to those at issue in the Federal Demand Futile Actions. In July 2019, the plaintiff in the Canoles Action voluntarily dismissed his suit in light of the settlement and dismissal of the Federal Actions.

PCM was the subject of a lawsuit brought by a purchaser of residential mortgage loans alleging breaches of representations and warranties made on loans sold to the purchaser. The asserted repurchase claims related to loans sold to the purchaser that were subsequently sold by the purchaser to either the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation and loans sold to the purchaser that were subsequently securitized and sold as residential mortgage-backed securities (“RMBS”) by the purchaser to RMBS investors. This matter was settled and dismissed in January 2018.

Other Contingencies

As part of the May 2017 sale of its equity interest in Pearlmark Mezz, the Company entered into an indemnification agreement pursuant to which the Company agreed to indemnify the purchaser against realized losses of up to \$4.3 million on one mezzanine loan until its final maturity date in 2020. As a result, the Company recorded a \$703,000 reserve for probable indemnification losses to establish a contingent liability during the year ended December 31, 2017. During the year ended December 31, 2019, the Company recorded a reversal of its reserve for probable losses of \$647,000 in connection with a reduction in the indemnified party’s exposure following the partial sale of the mezzanine loan by the indemnified party. As a result of the indemnified party’s partial sale of the mezzanine loan, the maximum exposure was reduced to \$536,000. At December 31, 2019 and 2018, the Company had a contingent liability, reported in accounts payable and other liabilities on its consolidated balance sheets, of \$56,000 and \$703,000, respectively, outstanding as a reserve for probable indemnification losses.

PCM is subject to additional claims for repurchases or indemnifications on loans that PCM has sold to investors. At December 31, 2019 and 2018, outstanding demands for indemnification, repurchase or make whole payments totaled \$3.3 million. The Company’s estimated exposure for such outstanding claims, as well as unasserted claims, is included in its reserve for mortgage repurchases and indemnifications.

Unfunded Commitments

Unfunded commitments on the Company’s originated CRE loans generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs subject, in each case, to the borrower meeting specified criteria. Upon completion of the improvements or construction, the Company would receive additional interest income on the advanced amount. Whole loans had \$98.0 million and \$105.7 million in unfunded loan commitments at December 31, 2019 and 2018, respectively. Preferred equity investments had \$3.0 million in unfunded investment commitments at December 31, 2019. There were no preferred equity investment unfunded commitments at December 31, 2018.

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2019

NOTE 23 - DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

In November 2016, the Company's Board approved the Plan to focus its strategy on CRE debt investments. The Plan contemplated disposing of certain legacy CRE loans and exiting underperforming non-core asset classes and businesses, including the residential mortgage and middle market lending segments as well as the Company's life settlement contract portfolio. The Company's residential mortgage and middle market lending segments' operations were classified as discontinued operations and excluded from continuing operations for all periods presented. Certain of the Company's legacy CRE loans were classified as held for sale. As of December 31, 2019, the Company has substantially completed the execution of the Plan.

The following table summarizes the operating results of the residential mortgage and middle market lending segments' discontinued operations as reported separately as net income (loss) from discontinued operations, net of tax for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Years Ended December 31,		
	2019	2018	2017
REVENUES			
Interest income:			
Loans	\$ —	\$ 580	\$ 3,319
Other	—	13	107
Total interest income	—	593	3,426
Interest expense	—	—	—
Net interest income	—	593	3,426
Other revenue	24	407	6,340
Total revenues	24	1,000	9,766
OPERATING EXPENSES			
Equity compensation	—	—	433
General and administrative	410	1,300	23,717
Total operating expenses	410	1,300	24,150
	(386)	(300)	(14,384)
OTHER INCOME (EXPENSE)			
Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives	135	421	145
Fair value adjustments on financial assets held for sale	—	—	123
Total other income	135	421	268
(LOSS) INCOME FROM DISCONTINUED OPERATIONS BEFORE TAXES			
Income tax expense	(251)	121	(14,116)
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAXES	(251)	121	(14,116)
Loss from disposal of discontinued operations	—	—	—
TOTAL (LOSS) INCOME FROM DISCONTINUED OPERATIONS	\$ (251)	\$ 121	\$ (14,116)

The assets and liabilities of business segments classified as discontinued operations and other assets and liabilities classified as held for sale are reported separately in the accompanying consolidated financial statements and are summarized as follows at December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
ASSETS		
Loans and other assets held for sale	\$ —	\$ 17,645
Property and other assets held for sale	16,766	—
Total assets held for sale	<u>\$ 16,766</u>	<u>\$ 17,645</u>
LIABILITIES		
Accounts payable and other liabilities	\$ 1,746	\$ 1,820
Total liabilities held for sale	<u>\$ 1,746</u>	<u>\$ 1,820</u>

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2019

In November 2019, the Company foreclosed on the non-performing legacy CRE loan held for sale. At December 31, 2019, the property had a fair value of \$16.5 million. The property's operating activity is included in the fair value adjustments on assets held for sale on the consolidated statements of operations and the property is currently being marketed for sale. At December 31, 2018, the legacy CRE loan had an amortized cost of \$21.7 million and carrying value of \$17.0 million. The Company has one mezzanine loan held for sale with a par value of \$38.1 million and a fair value of zero at December 31, 2019 and 2018. The mezzanine loan comprises two tranches, maturing in November 2018 and September 2021.

In 2018, the Company sold its remaining syndicated middle market loans and its remaining directly originated middle market loan paid off in excess of its carrying value as a result of which the Company recognized a \$390,000 net realized gain for the year ended December 31, 2018.

NOTE 24 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing of this report and determined that there have not been any events that have occurred that would require adjustments to or disclosures in the consolidated financial statements.

ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934, as amended, or the Exchange Act, reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our Chief Executive Officer and Chief Financial Officer, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting at December 31, 2019. In making this assessment, management used the criteria set forth in the 2013 version of the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management concluded that our internal control over financial reporting is effective at December 31, 2019.

Our independent registered public accounting firm, Grant Thornton LLP, audited our internal control over financial reporting at December 31, 2019. Their report, dated March 9, 2020, expressed an unqualified opinion on our internal control over financial reporting. This report is included in this Item 9A.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Exantas Capital Corp.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Exantas Capital Corp. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2019, and our report dated March 9, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion

Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Philadelphia, Pennsylvania
March 9, 2020

ITEM 9B. OTHER INFORMATION

Effective March 6, 2020, the board of directors approved the Third Amended and Restated Bylaws, which amend and restate the Company's existing bylaws to allow stockholders the power to adopt, alter or repeal any provision of the bylaws, or adopt new bylaws, by the affirmative vote of a majority of the votes entitled to be cast on the matter by stockholders entitled to vote.

The foregoing description does not purport to be complete and is qualified in its entirety by reference to the full text of the Third Amended and Restated Bylaws, which is filed as Exhibit 3.2 with this annual report on 10-K and is incorporated herein by reference. In addition, a version of the Third Amended and Restated Bylaws that has been marked to show changes from the bylaws that were previously in effect is included as Exhibit 3.3 and is incorporated herein by reference.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be set forth in our definitive proxy statement with respect to our 2020 annual meeting of stockholders, to be filed on or before April 30, 2020 (“2020 Proxy Statement”), which is incorporated herein by this reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in our 2020 Proxy Statement, which is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be set forth in our 2020 Proxy Statement, which is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item will be set forth in our 2020 Proxy Statement, which is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be set forth in our 2020 Proxy Statement, which is incorporated herein by this reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2019 and 2018

Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Changes in Stockholders' Equity for years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

3. Exhibits

Exhibit No.	Description
2.1	Asset Purchase Agreement, dated June 6, 2017, by and among Stearns Lending, LLC, Primary Capital Mortgage, LLC, and Resource Capital Corp. (32)
2.1(b)	Mortgage Loan Sale and Purchase Agreement, dated May 29, 2019, by and between RCC Real Estate, Inc. and C-III Commercial Mortgage LLC. (44)
3.1(a)	Amended and Restated Articles of Incorporation of Resource Capital Corp. (1)
3.1(b)	Articles of Amendment to Restated Certificate of Incorporation of Resource Capital Corp. (27)
3.1(c)	Articles Supplementary 8.50% Series A Cumulative Redeemable Preferred Stock. (15)
3.1(d)	Articles Supplementary 8.50% Series A Cumulative Redeemable Preferred Stock. (16)
3.1(e)	Articles Supplementary 8.25% Series B Cumulative Redeemable Preferred Stock. (17)
3.1(f)	Articles Supplementary 8.50% Series A Cumulative Redeemable Preferred Stock. (21)
3.1(g)	Articles Supplementary 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock. (8)
3.1(h)	Articles of Amendment, effective May 25, 2018. (39)
3.2	Third Amended and Restated Bylaws of Exantas Capital Corp.
3.3	Marked Third Amended and Restated Bylaws of Exantas Capital Corp.
4.1(a)	Form of Certificate for Common Stock for Resource Capital Corp. (1)
4.1(b)	Form of Certificate for 8.50% Series A Cumulative Redeemable Preferred Stock. (12)
4.1(c)	Form of Certificate for 8.25% Series B Cumulative Redeemable Preferred Stock. (17)
4.1(d)	Form of Certificate for 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock. (8)
4.2(a)	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., dated May 25, 2006. (2)
4.2(b)	Amendment to Junior Subordinated Indenture and Junior Subordinated Note due 2036 between Resource Capital Corp. and Wells Fargo Bank, N.A., dated October 26, 2009 and effective September 30, 2009. (6)
4.3(a)	Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated May 25, 2006. (2)
4.3(b)	Amendment to Amended and Restated Trust Agreement and Preferred Securities Certificate among Resource Capital Corp., Wells Fargo Bank, N.A. and the Administrative Trustees named therein, dated October 26, 2009 and effective September 30, 2009. (6)
4.4	Junior Subordinated Note due 2036 in the principal amount of \$25,774,000, dated October 26, 2009. (6)
4.5(a)	Junior Subordinated Indenture between Resource Capital Corp. and Wells Fargo Bank, N.A., dated September 29, 2006. (3)
4.5(b)	Amendment to Junior Subordinated Indenture and Junior Subordinated Note due 2036 between Resource Capital Corp. and Wells Fargo Bank, N.A., dated October 26, 2009 and effective September 30, 2009. (6)
4.6(a)	Amended and Restated Trust Agreement among Resource Capital Corp., Wells Fargo Bank, N.A., Wells Fargo Delaware Trust Company and the Administrative Trustees named therein, dated September 29, 2006. (3)
4.6(b)	Amendment to Amended and Restated Trust Agreement and Preferred Securities Certificate among Resource Capital Corp., Wells Fargo Bank, N.A. and the Administrative Trustees named therein, dated October 26, 2009 and effective September 30, 2009. (6)
4.7	Amended Junior Subordinated Note due 2036 in the principal amount of \$25,774,000, dated October 26, 2009. (6)
4.8(a)	Second Supplemental Indenture, dated January 13, 2015, between Resource Capital Corp. and Wells Fargo Bank, National Association, as Trustee (including the form of 8.00% Convertible Senior Notes due 2020). (19)

4.8(b)	Form of 8.00% Convertible Senior Notes due 2020 (included in Exhibit 4.8(d)).
4.8(c)	Third Supplemental Indenture, dated August 16, 2017, between Resource Capital Corp. and Wells Fargo Bank, National Association, as Trustee (including the form of 4.50% Convertible Senior Notes due 2022). (34)
4.8(d)	Form of 4.50% Convertible Senior Notes due 2022 (included in Exhibit 4.8(f)).
4.9	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
10.1	Third Amended and Restated Management Agreement between Resource Capital Corp., Resource Capital Manager, Inc. and Resource America, Inc. dated as of December 4, 2017. (36)
10.1(b)	Amendment No. 1 to Third Amended and Restated Management Agreement between Exantas Capital Corp. (formerly known as Resource Capital Corp.), Exantas Capital Manager Inc. (formerly known as Resource Capital Manger, Inc.) and Resource America, Inc. dated as of February 20, 2020. (48)
10.2(a)	2005 Stock Incentive Plan. (1)
10.2(b)	Form of Stock Award Agreement. (7)
10.2(c)	Form of Stock Option Agreement. (7)
10.3(a)	Second Amended and Restated Omnibus Equity Compensation Plan. (45)
10.3(b)	Form of Stock Award Agreement. (25)
10.3(c)	Form of Stock Award Agreement (for employees with Resource America, Inc. employment agreements). (25)
10.4	Services Agreement between Resource Capital Asset Management, LLC and Apidos Capital Management, LLC, dated February 24, 2011. (10)
10.5	Membership Interest Purchase Agreement, dated as of August 1, 2016, by and among CVC Credit Partners U.S. Lending I, L.P., Collier International Partners VII, L.P. Collier International Partners VII Parallel Fund, L.P. and Collier International Partners VII Luxembourg, SLP (solely with respect to Section 6.7 thereof), NEW NP, LLC, and Resource Capital Corp. (solely with respect to Section 6.8 thereof). (30)
10.6	Form of Indemnification Agreement. (33)
10.7	Exchange Agreement, dated August 10, 2017, by and between Resource Capital Corp., Oaktree Real Estate Debt Holdings Ltd., INVESTIN PRO RED HOLDINGS, LLC, and Oaktree TSE-16 Real Estate Debt, LLC. (34)
21.1	List of Subsidiaries of Exantas Capital Corp.
23.1	Consent of Grant Thornton LLP.
31.1	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Financial Officer.
32.1	Certification Pursuant to 18 U.S.C. Section 1350.
32.2	Certification Pursuant to 18 U.S.C. Section 1350.
99.1(a)	Amended and Restated Master Repurchase and Securities Contract by and between RCC Real Estate SPE 4, LLC, as Seller, and Wells Fargo Bank, National Association, as Buyer, dated as of July 19, 2018. (11)
99.1(b)	First Amendment to Amended and Restated Master Repurchase and Securities Contract by and between RCC Real Estate SPE 4, LLC, as Seller, and Wells Fargo Bank, National Association, as Buyer, dated as of May 29, 2019. (46)
99.1(c)	Amended and Restated Guaranty Agreement made by Exantas Capital Corp., as guarantor, and Wells Fargo Bank, National Association, dated as of July 19, 2018 (11)
99.2(a)	Master Repurchase and Securities Contract Agreement between RCC Real Estate 6, LLC and Morgan Stanley Bank, NA, dated as of September 10, 2015. (28)
99.2(b)	Second Amendment to Master Repurchase and Securities Contract Agreement between RCC Real Estate 6, LLC and Morgan Stanley Bank, N.A. dated as of September 10, 2018. (41)
99.2(c)	Third Amendment to Master Repurchase and Securities Contract Agreement between RCC Real Estate 6, LLC and Morgan Stanley Bank, N.A. dated as of September 10, 2019. (47)
99.2(d)	Guaranty dated as of September 10, 2015, made by Resource Capital Corp., as guarantor, in favor of Morgan Stanley Bank, N.A. (28)
99.3(a)	Master Repurchase Agreement between RCC Real Estate SPE 7, LLC and Barclays Bank PLC, dated as of April 10, 2018. (38)
99.3(b)	Guaranty dated as of April 10, 2018, made by Resource Capital Corp., as guarantor, in favor of Barclays Bank PLC. (38)
99.4(a)	Master Repurchase Agreement for \$250,000,000 between RCC Real Estate SPE 8, LLC, as Seller, and JPMorgan Chase Bank, National Association, as Buyer, dated October 26, 2018. (40)
99.4(b)	Guarantee made by Exantas Capital Corp., as guarantor, in favor of JPMorgan Chase Bank, National Association, dated October 26, 2018. (40)
99.5(a)	Notice of Proposed Settlement of Shareholder Derivative Litigation. (43)
99.5(b)	Stipulation and Agreement of Settlement. (43)
99.6	Federal Income Tax Consequences of our Qualification as a REIT.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File.

- (1) Filed previously as an exhibit to the Company's Registration Statement on Form S-11, Registration No. 333-126517.
- (2) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
- (3) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
- (4) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.
- (5) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on June 26, 2014.
- (6) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.
- (7) Filed previously as an exhibit to the Company's Registration Statement on Form S-11 (File No. 333-132836).
- (8) Filed previously as an exhibit to the Company's Registration Statement on Form 8-A filed on June 9, 2014.
- (9) Filed previously as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2010.
- (10) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on March 2, 2011.
- (11) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on February 4, 2014.
Filed previously as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 18, 2013.
- (12)
- (13) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on March 2, 2012.
- (14) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on June 13, 2012.
- (15) Filed previously as an exhibit to the Company's registration statement on Form 8-A filed on June 8, 2012.
- (16) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on June 29, 2012.
- (17) Filed previously as an exhibit to the Company's Registration Statement on Form 8-A filed on September 28, 2012.
- (18) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on September 23, 2014.
- (19) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on January 13, 2015.
- (20) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on October 1, 2012.
- (21) Filed previously as an exhibit to the Company Current Report on Form 8-K filed on November 20, 2012.
- (22) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on April 8, 2013.
- (23) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on July 25, 2013.
- (24) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on October 21, 2013.
- (25) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.
- (26) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.
- (27) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on September 1, 2015.
- (28) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on September 16, 2015.
- (29) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
- (30) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on August 5, 2016.
- (31) Filed previously as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2016.
- (32) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on June 8, 2017.
- (33) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.
- (34) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on August 16, 2017.
- (35) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.
- (36) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on December 18, 2017.
- (37) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017.
- (38) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on April 12, 2018.
- (39) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on May 25, 2018.
- (40) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on October 30, 2018.
- (41) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.
- (42) Filed previously as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2018.
- (43) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on March 27, 2019.
- (44) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on May 30, 2019.
- (45) Filed previously as an exhibit to the Company's Proxy Statement filed on April 18, 2019.
- (46) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.

(47) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019.

(48) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed on February 24, 2020.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EXANTAS CAPITAL CORP.

March 9, 2020

By: /s/ Robert C. Lieber
Robert C. Lieber
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ Andrew L. Farkas</u>	Chairman of the Board	March 9, 2020
ANDREW L. FARKAS		
<u>/s/ Robert C. Lieber</u>	Chief Executive Officer	March 9, 2020
ROBERT C. LIEBER	(Principal Executive Officer)	
<u>/s/ Jeffrey P. Cohen</u>	Director	March 9, 2020
JEFFREY P. COHEN		
<u>/s/ William B. Hart</u>	Director	March 9, 2020
WILLIAM B. HART		
<u>/s/ Gary Ickowicz</u>	Director	March 9, 2020
GARY ICKOWICZ		
<u>/s/ Steven J. Kessler</u>	Director	March 9, 2020
STEVEN J. KESSLER		
<u>/s/ Murray S. Levin</u>	Director	March 9, 2020
MURRAY S. LEVIN		
<u>/s/ P. Sherrill Neff</u>	Director	March 9, 2020
P. SHERRILL NEFF		
<u>/s/ Henry R. Silverman</u>	Director	March 9, 2020
HENRY R. SILVERMAN		
<u>/s/ David J. Bryant</u>	Senior Vice President	March 9, 2020
DAVID J. BRYANT	Chief Financial Officer and Treasurer (Principal Financial Officer)	
<u>/s/ Eldron C. Blackwell</u>	Vice President	March 9, 2020
ELDRON C. BLACKWELL	Chief Accounting Officer (Principal Accounting Officer)	

SCHEDULE II
Exantas Capital Corp.
Valuation and Qualifying Accounts
(in thousands)

	Balance at Beginning of Period	Charge to Expense	Loans Charged off/Recovered	Balance at End of Period
Allowance for loan and lease loss:				
Year Ended December 31, 2019	\$ 1,401	\$ 59	\$ —	\$ 1,460
Year Ended December 31, 2018	\$ 5,328	\$ (1,595)	\$ (2,332)	\$ 1,401
Year Ended December 31, 2017	\$ 3,829	\$ 1,499	\$ —	\$ 5,328

SCHEDULE IV
Exantas Capital Corp.
Mortgage Loans on Real Estate
At December 31, 2019
(in thousands, except amount in footnotes)

Type of Loan/ Borrower	Description / Location	Interest Payment Rates	Maturity Date ⁽¹⁾	Periodic Payment Terms ⁽²⁾	Prior Liens	Face Amount of Loans	Net Carrying Amount of Loans ⁽³⁾	Principal Amount of Loans Subject to Delinquent Principal or Interest
CRE whole loans:								
<i>CRE whole loans in excess of 3% of the carrying amount of total loans</i>								
Borrower A	Hotel/Phoenix, AZ	LIBOR + 3.75% FLOOR 1.92%	2021	I/O	—	56,470	56,124	—
<i>CRE whole loans less than 3% of the carrying amount of total loans</i>								
CRE whole loan	Multifamily/ Various	LIBOR + 2.70% - 4.50% FLOOR 0.60% - 2.50%	2020-2023	I/O	—	1,014,003	1,008,838	—
CRE whole loan	Office/ Various	LIBOR + 2.82% - 5.05% FLOOR 0.20% - 2.50%	2020-2023	I/O	—	237,104	235,998	—
CRE whole loan ⁽⁴⁾	Retail/ Various	LIBOR + 3.25% - 5.65% FLOOR 0.15% - 2.15%	2020-2021	I/O	—	142,151	142,093	11,516
CRE whole loan	Hotel/ Various	LIBOR + 3.90% - 6.25% FLOOR 0.75% - 2.45%	2020-2022	I/O	—	132,832	132,561	—
CRE whole loan	Self-Storage/ Various	LIBOR + 3.50% - 4.50% FLOOR 2.00% - 2.50%	2020-2022	I/O	—	111,365	110,878	—
CRE whole loan	Other/ Various	LIBOR + 3.50% - 5.00% FLOOR 1.25% - 2.50%	2020-2023	I/O	—	74,397	74,105	—
Total CRE whole loans						<u>1,768,322</u>	<u>1,760,597</u>	<u>11,516</u>
Mezzanine loans:								
<i>Mezzanine loans less than 3% of the carrying amount of total loans</i>								
Total mezzanine loans						<u>42,772</u>	<u>4,700</u>	<u>38,072</u>
Preferred equity:								
<i>Preferred Equity less than 3% of the carrying amount of total loans</i>								
Total preferred equity						<u>26,237</u>	<u>26,148</u>	<u>—</u>
General allowance for loan loss							(1,460)	
Total loans						<u>\$ 1,837,331</u>	<u>\$ 1,789,985</u>	<u>\$ 49,588</u>

(1) Maturity dates exclude extension options that may be available to borrower.

(2) I/O = interest only

(3) The net carrying amount of loans includes an allowance for loan loss of \$1.5 million at December 31, 2019, all allocated to CRE whole loans.

(4) Includes one loan in forbearance at December 31, 2019.

The following table reconciles our CRE loans carrying amounts for the periods indicated (in thousands):

	Years Ended December 31,		
	2019	2018	2017
Balance at beginning of year	\$ 1,568,967	\$ 1,346,663	\$ 1,444,456
Additions during the period:			
New loans originated or acquired	874,936	780,556	528,865
Funding of existing loan commitments	43,203	51,365	31,563
Amortization of loan origination fees and costs, net	6,053	5,537	4,813
Protective advances on legacy CRE loans held for sale	645	1,724	442
(Provision for) recovery of loan and lease losses, net	(58)	1,595	(1,499)
Settled loans held for sale fair value adjustments	—	1,000	12,655
Capitalized interest and loan acquisition costs	3,418	518	—
Deductions during the period:			
Payoff and paydown of loans	(682,846)	(592,438)	(559,438)
Foreclosure	(18,515)	—	—
Loans held for sale payoffs	—	(12,000)	(107,492)
Capitalized origination fees	(6,687)	(8,329)	(5,760)
Loans held for sale fair value adjustments	869	(7,224)	(1,942)
Balance at end of year	<u>\$ 1,789,985</u>	<u>\$ 1,568,967</u>	<u>\$ 1,346,663</u>

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Board of Directors

Andrew L. Farkas (Chairman)

Chief Executive Officer, C-III Capital Partners LLC
Managing Member, Chairman & Chief Executive Officer, Island Capital Group LLC

Jeffrey P. Cohen

President, C-III Capital Partners LLC and Island Capital Group LLC

William B. Hart

Former Chairman of the Board of Trustees of the National Trust for Historic Preservation

Gary Ickowicz

Managing Partner of IR Capital LLC

Steven J. Kessler

Former Chairman of Exantas Capital Corp. and Former Executive Vice President of Resource America, Inc.

Murray L. Levin

Special Counsel at Pepper Hamilton LLP

P. Sherrill Neff

Founding partner of Quaker Partners

Henry R. Silverman

Managing Member, Chief Executive Officer and a principal owner of 54 Madison LLC

Executive Officers

Robert C. Lieber

Chief Executive Officer

Matthew J. Stern

President

David J. Bryant

Chief Financial Officer

Thomas C. Elliott

Executive Vice President – Finance and Operations

Paul A. Hughson

Executive Vice President

Michele R. Weisbaum

Chief Legal Officer, Senior Vice President & Secretary

Eldron C. Blackwell

Chief Accounting Officer

Stock Listing

Exantas Capital Corp.'s common stock is listed on the New York Stock Exchange under the symbol "XAN"

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
(800) 937-5449 US & Canada or (718) 921-8124 Int'l.
(866) 703-9077 or (718) 921-8386 for Hearing Impaired
Email: info@amstock.com Website: www.amstock.com

Annual Report on Form 10-K

Exantas Capital Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019 is included in this annual report. The exhibits accompanying the report are filed with the Securities and Exchange Commission and may be accessed in the EDGAR database at the Securities and Exchange Commission's website, www.sec.gov, or through Exantas Capital Corp.'s website in the "Investor Relations" section at www.exantas.com. We will provide these items to stockholders upon request. Requests for any such exhibits should be made to:

Exantas Capital Corp.
1845 Walnut Street, 17th Floor
Philadelphia, PA 19103
Attention: Secretary

Annual Meeting of Stockholders

Stockholders of Exantas Capital Corp. are cordially invited to attend the 2020 Annual Meeting of Stockholders scheduled to be held on June 10, 2020 at 11:00 a.m. at 1845 Walnut Street, 17th Floor, Philadelphia, Pennsylvania. *

Forward Looking Statements

In accordance with the Private Securities Litigation Reform Act of 1995, Exantas Capital Corp. notes that this annual report contains forward-looking statements that involve risks and uncertainties, including those relating to its future success and growth. Actual results may differ materially due to risks and uncertainties described in Exantas Capital Corp.'s filings with the U.S. Securities and Exchange Commission. Exantas Capital Corp. does not intend to update these forward-looking statements except as required by law.

Independent Registered Public Accounting Firm

Grant Thornton LLP

Investor Relations

Contact Marketing and Investor Relations at IR@exantas.com for investor relations inquiries.

**Due to concerns relating to the public health impact of the coronavirus outbreak (COVID-19) and related travel, we are taking precautions and planning for the possibility that the Meeting may be held at a different location or solely by means of remote communication (i.e., a virtual-only meeting) and with additional procedures to protect public health and safety. If we determine to hold the Meeting in this manner, we will announce the decision in advance, and will provide details on how to participate at <http://exantas.investorroom.com>. We encourage you to check this website prior to the Meeting if you plan to attend.*

