STARWOOD PROPERTY TRUST, INC.
Form 10-Q
November 05, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	27-0247747 (I.R.S. Employer Identification No.)
591 West Putnam Avenue Greenwich, Connecticut (Address of Principal Executive Offices)	 06830 (Zip Code)

Registrant's telephone number, including area code:

(203) 422-8100

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

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

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

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

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of October 30, 2015 was 237,672,948.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including without limitation, statements concerning our operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are developed by combining currently available information with our beliefs and assumptions and are generally identified by the words “believe,” “expect,” “anticipate” and other similar expressions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates.

These forward-looking statements are based largely on our current beliefs, assumptions and expectations of 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 within our control, and which could materially affect actual results, performance or achievements. Factors that may cause actual results to vary from our forward-looking statements include, but are not limited to:

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2014, this Quarterly Report on Form 10-Q and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 2015, including those set forth under the captions “Risk Factors” and “Business”;

- defaults by borrowers in paying debt service on outstanding indebtedness;

- impairment in the value of real estate property securing our loans or in which we invest;

- availability of mortgage origination and acquisition opportunities acceptable to us;

- our ability to fully integrate LNR Property LLC, a Delaware limited liability company (“LNR”), which was acquired on April 19, 2013, into our business and achieve the benefits that we anticipate from this acquisition;

- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;

- national and local economic and business conditions;

- general and local commercial and residential real estate property conditions;

· changes in federal government policies;

· changes in federal, state and local governmental laws and regulations;

· increased competition from entities engaged in mortgage lending and securities investing activities;

· changes in interest rates; and

· the availability of, and costs associated with, sources of liquidity.

In light of these risks and uncertainties, there can be no assurances that the results referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q will in fact occur. Except to the extent required by applicable law or regulation, we undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, changes to future results over time or otherwise.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands, except share data)

	As of September 30, 2015	As of December 31, 2014
Assets:		
Cash and cash equivalents	$ 372,768	$ 255,187
Restricted cash	43,620	48,704
Loans held-for-investment, net	5,814,886	5,779,238
Loans held-for-sale ($423,630 and $391,620 held at fair value)	450,828	391,620
Loans transferred as secured borrowings	142,456	129,427
Investment securities ($421,456 and $556,253 held at fair value)	786,461	998,248
Properties, net	530,438	39,854
Intangible assets ($123,892 and $132,303 held at fair value)	191,080	144,152
Investment in unconsolidated entities	199,171	193,983
Goodwill	140,437	140,437
Derivative assets	36,307	26,628
Accrued interest receivable	36,042	40,102
Other assets	137,296	95,652
Variable interest entity ("VIE") assets, at fair value	82,937,617	107,816,065
Total Assets	$ 91,819,407	$ 116,099,297
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 137,786	$ 144,516
Related-party payable	22,804	40,751
Dividends payable	115,191	108,189
Derivative liabilities	14,901	5,476
Secured financing agreements, net	3,682,274	3,137,789
Convertible senior notes, net	1,320,207	1,418,022
Secured borrowings on transferred loans	143,926	129,441

VIE liabilities, at fair value	82,181,138	107,232,201
Total Liabilities	87,618,227	112,216,385
Commitments and contingencies (Note 21)		
Equity:		
Starwood Property Trust, Inc. Stockholders' Equity:		
Preferred stock, $0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 per share, 500,000,000 shares authorized, 240,665,588 issued and 237,658,615 outstanding as of September 30, 2015 and 224,752,053 issued and 223,538,303 outstanding as of December 31, 2014	2,407	2,248
Additional paid-in capital	4,184,538	3,835,725
Treasury stock (3,006,973 shares and 1,213,750 shares)	(61,525)	(23,635)
Accumulated other comprehensive income	39,510	55,896
Retained earnings (accumulated deficit)	5,843	(9,378)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,170,773	3,860,856
Non-controlling interests in consolidated subsidiaries	30,407	22,056
Total Equity	4,201,180	3,882,912
Total Liabilities and Equity	$ 91,819,407	$ 116,099,297

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited, amounts in thousands, except per share data)

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
Revenues:				
Interest income from loans	$ 120,598	$ 110,669	$ 357,319	$ 321,034
Interest income from investment securities	24,674	28,640	76,228	85,714
Servicing fees	32,528	34,641	90,939	101,533
Rental income	10,045	3,385	17,731	6,520
Other revenues	4,300	4,033	7,437	9,296
Total revenues	192,145	181,368	549,654	524,097
Costs and expenses:				
Management fees	28,082	24,943	82,871	77,849
Interest expense	50,688	39,739	151,021	115,265
General and administrative	38,693	47,640	115,361	136,835
Acquisition and investment pursuit costs	3,682	759	9,735	1,924
Costs of rental operations	2,352	1,783	5,261	3,889
Depreciation and amortization	7,234	3,017	17,147	12,807
Loan loss allowance, net	(2,667)	1,575	311	1,933
Other expense	3	918	378	6,527
Total costs and expenses	128,067	120,374	382,085	357,029
Income before other income, income taxes and non-controlling interests	64,078	60,994	167,569	167,068
Other income:				
Change in net assets related to consolidated VIEs	49,665	87,778	153,399	190,810
Change in fair value of servicing rights	(4,217)	(7,897)	(8,411)	(18,671)
Change in fair value of investment securities, net	2,617	1,860	3,564	15,180
Change in fair value of mortgage loans held-for-sale, net	19,082	15,517	51,044	48,018
Earnings from unconsolidated entities	5,706	3,805	20,747	13,432
Gain on sale of investments and other assets, net	3,348	1,332	20,755	12,965
Gain on derivative financial instruments, net	2,230	29,275	7,323	11,619
Foreign currency loss, net	(17,782)	(21,466)	(27,235)	(16,212)
Total other-than-temporary impairment (“OTTI”)	—	(264)	—	(2,256)
Noncredit portion of OTTI recognized in other comprehensive income	—	264	—	1,246
Net impairment losses recognized in earnings	—	—	—	(1,010)

Loss on extinguishment of debt	—	—	(5,921)	—
Other income, net	64	28	119	738
Total other income	60,713	110,232	215,384	256,869
Income from continuing operations before income taxes	124,791	171,226	382,953	423,937
Income tax provision	(7,675)	(3,836)	(27,418)	(13,733)
Income from continuing operations	117,116	167,390	355,535	410,204
Loss from discontinued operations, net of tax (Note 3)	—	—	—	(1,551)
Net income	117,116	167,390	355,535	408,653
Net income attributable to non-controlling interests	(381)	(2,346)	(1,289)	(5,140)
Net income attributable to Starwood Property Trust, Inc.	$ 116,735	$ 165,044	$ 354,246	$ 403,513
Earnings per share data attributable to Starwood Property Trust, Inc.:				
Basic:				
Income from continuing operations	$ 0.49	$ 0.73	$ 1.51	$ 1.89
Loss from discontinued operations	—	—	—	(0.01)
Net income	$ 0.49	$ 0.73	$ 1.51	$ 1.88
Diluted:				
Income from continuing operations	$ 0.49	$ 0.73	$ 1.51	$ 1.88
Loss from discontinued operations	—	—	—	(0.01)
Net income	$ 0.49	$ 0.73	$ 1.51	$ 1.87
Dividends declared per common share	$ 0.48	$ 0.48	$ 1.44	$ 1.44

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 117,116	$ 167,390	$ 355,535	$ 408,653
Other comprehensive (loss) income (net change by component):				
Cash flow hedges	(208)	530	(348)	559
Available-for-sale securities	(9,095)	3,954	(18,915)	(2,166)
Foreign currency remeasurement	2,912	(9,765)	2,877	(4,161)
Other comprehensive loss	(6,391)	(5,281)	(16,386)	(5,768)
Comprehensive income	110,725	162,109	339,149	402,885
Less: Comprehensive income attributable to non-controlling interests	(381)	(2,346)	(1,289)	(5,140)
Comprehensive income attributable to Starwood Property Trust, Inc.	$ 110,344	$ 159,763	$ 337,860	$ 397,745

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

Common stock Shares	Par Value	Additional Paid-in Capital	Treasury Stock Shares	Amount	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Starwood Property Trust, Inc. Stockholders' Equity	Non-Controlling Interests
224,752,053	$ 2,248	$ 3,835,725	1,213,750	$ (23,635)	$ (9,378)	$ 55,896	$ 3,860,856	$ 22,056
13,800,000	138	326,004	—	—	—	—	326,142	—
9,400	—	219	—	—	—	—	219	—
—	—	(945)	—	—	—	—	(945)	—
—	—	—	1,793,223	(37,890)	—	—	(37,890)	—
—	—	(17,727)	—	—	—	—	(17,727)	—
1,484,879	15	26,440	—	—	—	—	26,455	—
619,256	6	14,822	—	—	—	—	14,828	—
—	—	—	—	—	354,246	—	354,246	1,289
—	—	—	—	—	(339,025)	—	(339,025)	—
—	—	—	—	—	—	(16,386)	(16,386)	—

—	—	—	—	—	—	—	—	4,188
—	—	—	—	—	—	—	—	4,133
—	—	—	—	—	—	—	—	(1,259)
240,665,588	$ 2,407	$ 4,184,538	3,006,973	$ (61,525)	$ 5,843	$ 39,510	$ 4,170,773	$ 30,407
196,139,045	$ 1,961	$ 4,300,479	625,850	$ (10,642)	$ (84,719)	$ 75,449	$ 4,282,528	$ 44,605
25,300,000	253	564,442	—	—	—	—	564,695	—
759,000	8	18,338	—	—	—	—	18,346	—
2,430	—	58	—	—	—	—	58	—
—	—	(1,623)	—	—	—	—	(1,623)	—
—	—	—	587,900	(12,993)	—	—	(12,993)	—
1,025,144	10	21,491	—	—	—	—	21,501	—
376,932	4	8,986	—	—	—	—	8,990	—
—	—	—	—	—	403,513	—	403,513	5,140
—	—	—	—	—	(311,492)	—	(311,492)	—
—	—	(1,118,743)	—	—	—	—	(1,118,743)	(1,594)
—	—	—	—	—	—	(5,768)	(5,768)	—
—	—	—	—	—	—	—	—	382
—	—	—	—	—	—	—	—	(33,582)

223,602,551	$ 2,236	$ 3,793,428	1,213,750	$ (23,635)	$ 7,302	$ 69,681	$ 3,849,012	$ 14,951

See notes to condensed consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	$ 355,535	$ 408,653
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs	11,055	8,501
Amortization of convertible debt discount and deferred fees	15,631	9,376
Accretion of net discount on investment securities	(20,312)	(17,174)
Accretion of net deferred loan fees and discounts	(26,615)	(16,756)
Amortization of net premium (discount) from secured borrowings on transferred loans	4	(862)
Share-based compensation	26,455	21,501
Share-based component of incentive fees	14,828	8,990
Change in fair value of fair value option investment securities	(3,564)	(15,180)
Change in fair value of consolidated VIEs	17,438	(71,105)
Change in fair value of servicing rights	8,411	18,671
Change in fair value of loans held-for-sale	(51,044)	(48,018)
Change in fair value of derivatives	(12,765)	(14,595)
Foreign currency loss, net	27,372	15,767
Gain on sale of investments and other assets	(20,755)	(13,907)
Other-than-temporary impairment	—	1,010
Loan loss allowance, net	311	1,933
Depreciation and amortization	15,873	13,178
Earnings from unconsolidated entities	(20,747)	(13,432)
Distributions of earnings from unconsolidated entities	18,665	9,354
Loss on extinguishment of debt	5,921	—
Originations of loans held-for-sale, net of principal collections	(1,424,837)	(1,159,058)
Proceeds from sale of loans held-for-sale	1,443,871	1,165,583
Changes in operating assets and liabilities:		
Related-party payable, net	(17,947)	7,073
Accrued and capitalized interest receivable, less purchased interest	(48,310)	(29,770)
Other assets	(29,576)	(6,192)
Accounts payable, accrued expenses and other liabilities	(25,211)	(46,997)

Net cash provided by operating activities	259,687	236,544
Cash Flows from Investing Activities:		
Origination and purchase of loans held-for-investment	(1,670,124)	(2,123,947)
Proceeds from principal collections on loans	1,057,700	966,350
Proceeds from loans sold	599,504	341,472
Purchase of investment securities	(163,018)	(67,230)
Proceeds from sales of investment securities	6,301	100,166
Proceeds from principal collections on investment securities	348,090	40,999
Real estate business combinations, net of cash acquired	(239,933)	—
Proceeds from sale of properties	33,056	1,784
Purchase of other assets	(309)	(18,731)
Investment in unconsolidated entities	(32,063)	(21,973)
Distribution of capital from unconsolidated entities	29,003	38,946
Payments for purchase or termination of derivatives	(18,271)	(16,081)
Proceeds from termination of derivatives	30,194	5,611
Return of investment basis in purchased derivative asset	260	1,222
Decrease in restricted cash, net	9,404	8,890
Spin-off of Starwood Waypoint Residential Trust	—	(111,960)
Acquisition and improvement of single family homes	—	(61,901)
Proceeds from sale of non-performing loans	—	1,153
Net cash used in investing activities	(10,206)	(915,230)

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30, 2015	2014
Cash Flows from Financing Activities:		
Borrowings under financing agreements	$ 3,423,328	$ 2,917,281
Principal repayments on and repurchases of borrowings	(3,289,937)	(2,459,837)
Payment of deferred financing costs	(13,876)	(11,536)
Proceeds from common stock issuances	326,361	583,099
Payment of equity offering costs	(945)	(1,623)
Payment of dividends	(332,023)	(293,607)
Distributions to non-controlling interests	(1,259)	(33,582)
Purchase of treasury stock	(29,792)	—
Issuance of debt of consolidated VIEs	9,132	88,412
Repayment of debt of consolidated VIEs	(246,230)	(129,724)
Distributions of cash from consolidated VIEs	26,690	32,601
Net cash (used in) provided by financing activities	(128,551)	691,484
Net increase in cash and cash equivalents	120,930	12,798
Cash and cash equivalents, beginning of period	255,187	317,627
Effect of exchange rate changes on cash	(3,349)	(3,103)
Cash and cash equivalents, end of period	$ 372,768	$ 327,322
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 126,668	$ 110,208
Income taxes paid	27,256	19,040
Supplemental disclosure of non-cash investing and financing activities:		
Fair value of assets acquired	$ 540,764	$ —
Fair value of liabilities assumed	300,831	—
Assets acquired from consolidated VIEs, net	(39,506)	—
Unsettled common stock repurchased	8,098	12,993
Dividends declared, but not yet paid	115,191	108,056
Consolidation of VIEs (VIE asset/liability additions)	8,067,859	27,094,681
Deconsolidation of VIEs (VIE asset/liability reductions)	(5,278,580)	8,502,882
Net assets distributed in spin-off of Starwood Waypoint Residential Trust	—	1,008,377

See notes to condensed consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of September 30, 2015

(Unaudited)

1. Business and Organization

Starwood Property Trust, Inc. ("STWD" together with its subsidiaries, "we" or the "Company") is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering ("IPO"). We are focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities ("CMBS"), and other commercial real estate investments in both the U.S. and Europe. We refer to the following as our target assets: commercial real estate mortgage loans, preferred equity interests, CMBS and other commercial real estate-related debt investments. Our target assets may also include residential mortgage-backed securities ("RMBS"), certain residential mortgage loans, distressed or non-performing commercial loans, commercial properties subject to net leases and equity interests in commercial real estate. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have three reportable business segments as of September 30, 2015:

· Real estate lending (the "Lending Segment")—engages primarily in originating, acquiring, financing and managing commercial first mortgages, subordinated mortgages, mezzanine loans, preferred equity, CMBS, RMBS and other real estate and real estate-related debt investments in both the U.S. and Europe that are held-for-investment.

· Real estate investing and servicing (the "Investing and Servicing Segment")—includes (i) servicing businesses in both the U.S. and Europe that manage and work out problem assets, (ii) an investment business that selectively acquires and manages unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions, and (iv) an investment business that selectively acquires commercial real estate assets, including properties acquired from CMBS trusts. This segment excludes the consolidation of securitization variable interest entities ("VIEs").

· Real estate property (the "Property Segment")—engages primarily in acquiring and managing equity interests in stabilized commercial real estate properties, including multi-family properties, that are held for investment.

On January 31, 2014, we completed the spin-off of our former single family residential ("SFR") segment to our stockholders as discussed further in Note 3.

We are organized and conduct our operations to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). As such, we will generally not be subject to U.S. federal corporate income tax on that portion of our net income that is distributed to stockholders if we distribute at least 90% of our taxable income to our stockholders by prescribed dates and comply with various other requirements.

We are organized as a holding company and conduct our business primarily through our various wholly-owned subsidiaries. We are externally managed and advised by SPT Management, LLC (our "Manager") pursuant to the terms of a management agreement. Our Manager is controlled by Barry Sternlicht, our Chairman and Chief Executive Officer. Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht.

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2. Summary of Significant Accounting Policies

Balance Sheet Presentation of the Investing and Servicing Segment's Variable Interest Entities

As noted above, the Investing and Servicing Segment operates an investment business that acquires unrated, investment grade and non-investment grade rated CMBS. These securities represent interests in securitization structures (commonly referred to as special purpose entities, or "SPEs"). These SPEs are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. Under accounting principles generally accepted in the United States of America ("GAAP"), SPEs typically qualify as variable interest entities ("VIEs"). These are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

Because the Investing and Servicing Segment often serves as the special servicer of the trusts in which it invests, consolidation of these structures is required pursuant to GAAP as outlined in detail below. This results in a consolidated balance sheet which presents the gross assets and liabilities of the VIEs. The assets and other instruments held by these VIEs are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the VIEs do not have any recourse to the general credit of any other consolidated entities, nor to us as the consolidator of these VIEs.

The VIE liabilities initially represent investment securities on our balance sheet (pre-consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles as special servicer of the bonds issued by the consolidated VIEs or as collateral administrator of the consolidated VIEs are also eliminated. Finally, an allocable portion of the identified servicing intangible associated with the eliminated fee streams is eliminated in consolidation.

Refer to the segment data in Note 22 for a presentation of the Investing and Servicing Segment without consolidation of these VIEs.

Basis of Accounting and Principles of Consolidation

The accompanying condensed consolidated financial statements include our accounts and those of our consolidated subsidiaries and VIEs. Intercompany amounts have been eliminated in consolidation. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows have been included.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the “Form 10-K”), as filed with the Securities and Exchange Commission (“SEC”). The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the operating results for the full year.

Refer to our Form 10-K for a description of our recurring accounting policies. We have included disclosure in this Note 2 regarding principles of consolidation and other accounting policies that (i) are required to be disclosed quarterly, (ii) we view as critical, or (iii) became significant since December 31, 2014 due to a corporate action or increase in the significance of the underlying business activity.

Variable Interest Entities

We evaluate all of our interests in VIEs for consolidation. When our interests are determined to be variable interests, we assess whether we are deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. Accounting Standards Codification (“ASC”) 810, Consolidation, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its

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economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. We consider our variable interests as well as any variable interests of our related parties in making this determination. Where both of these factors are present, we are deemed to be the primary beneficiary and we consolidate the VIE. Where either one of these factors is not present, we are not the primary beneficiary and do not consolidate the VIE.

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

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

Our purchased investment securities include CMBS, which are unrated and non-investment grade rated securities issued by CMBS trusts. In certain cases, we may contract to provide special servicing activities for these CMBS trusts, or, as holder of the controlling class, we may have the right to name and remove the special servicer for these trusts. In our role as special servicer, we provide services on defaulted loans within the trusts, such as foreclosure or work-out procedures, as permitted by the underlying contractual agreements. In exchange for these services, we receive a fee. These rights give us the ability to direct activities that could significantly impact the trust's economic performance. However, in those instances where an unrelated third party has the right to unilaterally remove us as special servicer, we do not have the power to direct activities that most significantly impact the trust's economic performance. We evaluated all of our positions in such investments for consolidation.

For VIEs in which we are determined to be the primary beneficiary, all of the underlying assets, liabilities and equity of the structures are recorded on our books, and the initial investment, along with any associated unrealized holding gains and losses, are eliminated in consolidation. Similarly, the interest income earned from these structures, as well as the fees paid by these trusts to us in our capacity as special servicer, are eliminated in consolidation. Further, an allocable portion of the identified servicing intangible asset associated with the servicing fee streams, and the corresponding allocable amortization or change in fair value of the servicing intangible asset, are also eliminated in consolidation.

We perform ongoing reassessments of: (1) whether any entities previously evaluated under the majority voting interest framework have become VIEs, based on certain events, and therefore subject to the VIE consolidation framework, and (2) whether changes in the facts and circumstances regarding our involvement with a VIE causes our consolidation conclusion regarding the VIE to change.

We elect the fair value option for initial and subsequent recognition of the assets and liabilities of our consolidated VIEs. Interest income and interest expense associated with these VIEs are no longer relevant on a standalone basis because these amounts are already reflected in the fair value changes. We have elected to present these items in a single line on our condensed consolidated statements of operations. The residual difference shown on our condensed consolidated statements of operations in the line item "Change in net assets related to consolidated VIEs" represents our beneficial interest in the VIEs.

We separately present the assets and liabilities of our consolidated VIEs as individual line items on our consolidated balance sheets. The liabilities of our consolidated VIEs consist solely of obligations to the bondholders of the related CMBS trusts, and are thus presented as a single line item entitled "VIE liabilities." The assets of our consolidated VIEs consist principally of loans, but at times, also include foreclosed loans which have been temporarily converted into real estate owned ("REO"). These assets in the aggregate are likewise presented as a single line item entitled "VIE assets."

Loans comprise the vast majority of our VIE assets and are carried at fair value due to the election of the fair value option. When an asset becomes REO, it is due to nonperformance of the loan. Because the loan is already at fair value, the carrying value of an REO asset is also initially at fair value. Furthermore, when we consolidate a CMBS trust, any existing REO would be consolidated at fair value. Once an asset becomes REO, its disposition time is relatively short. As a result, the carrying value of an REO generally approximates fair value under GAAP.

In addition to sharing a similar measurement method as the loans in a CMBS trust, the VIE assets as a whole can only be used to settle the obligations of the consolidated VIE. The assets of our VIEs are not individually accessible by the bondholders, which creates inherent limitations from a valuation perspective. Also creating limitations from a valuation perspective is our role as special servicer, which provides us very limited visibility, if any, into the performing loans of a CMBS trust.

REO assets generally represent a very small percentage of the overall asset pool of a CMBS trust. In a new issue CMBS trust there are no REO assets. We estimate that REO assets constitute approximately 4% of our consolidated VIE assets, with the remaining 96% representing loans. However, it is important to note that the fair value of our VIE assets is determined by reference to our VIE liabilities as permitted under Accounting Standards Update ("ASU") 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. In other words, our VIE liabilities are more reliably measurable than the VIE assets, resulting in our current measurement methodology which utilizes this value to determine the fair value of our VIE assets as a whole. As a result, these percentages are not necessarily indicative of the relative fair values of each of these asset categories if the assets were to be valued individually.

Due to our accounting policy election under ASU 2014-13, separately presenting two different asset categories would result in an arbitrary assignment of value to each, with one asset category representing a residual amount, as opposed to its fair value. However, as a pool, the fair value of the assets in total is equal to the fair value of the liabilities.

For these reasons, the assets of our VIEs are presented in the aggregate.

Convertible Senior Notes

ASC 470, Debt, requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. ASC 470-20 requires that the initial proceeds from the sale of these notes be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Company at such time. The equity components of the convertible notes have been reflected within additional paid-in capital in our condensed consolidated balance sheets. The resulting debt discount is being amortized over the period during which the convertible notes are expected to be outstanding (the maturity date) as additional non-cash interest expense.

Upon repurchase of convertible debt instruments, ASC 470-20 requires the issuer to allocate total settlement consideration, inclusive of transaction costs, amongst the liability and equity components of the instrument based on the fair value of the liability component immediately prior to repurchase. The difference between the settlement consideration allocated to the liability component and the net carrying value of the liability component, including unamortized debt issuance costs, is recognized as gain (loss) on extinguishment of debt in our condensed consolidated statements of operations. The remaining settlement consideration allocated to the equity component is recognized as a reduction of additional paid-in capital in our condensed consolidated balance sheets.

Discontinued Operations

On January 31, 2014, we completed the spin-off of our former SFR segment to our stockholders as discussed in Note 3. In accordance with ASC 205, Presentation of Financial Statements, the results of the SFR segment are presented within discontinued operations in our condensed consolidated statements of operations for the nine months ended September 30, 2014.

Fair Value Option

The guidance in ASC 825, Financial Instruments, provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The decision to elect the fair value option is determined on an instrument by instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in our consolidated balance sheets from those instruments using another accounting method.

We have elected the fair value option for eligible financial assets and liabilities of our consolidated VIEs, loans held-for-sale originated by the Investing and Servicing Segment's conduit platform, purchased CMBS issued by VIEs we could consolidate in the future and certain investments in marketable equity securities. The fair value elections for VIE and securitization related items were made in order to mitigate accounting mismatches between the carrying value of the instruments and the related assets and liabilities that we consolidate at fair value. The fair value elections for mortgage loans held-for-sale originated by the Investing and Servicing Segment's conduit platform were made due to the short-term nature of these instruments. The fair value elections for investments in marketable equity securities were made because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market.

Fair Value Measurements

We measure our mortgage backed securities, derivative assets and liabilities, domestic servicing rights intangible asset and any assets or liabilities where we have elected the fair value option at fair value. When actively quoted observable prices are not available, we either use implied pricing from similar assets and liabilities or valuation models based on net present values of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

As discussed above, we measure the assets and liabilities of consolidated VIEs at fair value pursuant to our election of the fair value option. The VIEs in which we invest are "static"; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a collateralized debt obligation ("CDO"). This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. Refer to Note 19 for further information regarding our fair value measurements.

Loans Receivable and Provision for Loan Losses

In our Lending Segment we purchase and originate commercial real estate debt and related instruments generally to be held as long-term investments at amortized cost. We are required to periodically evaluate each of these loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is determined to be impaired, we write down the loan through a charge to the provision for loan losses. Actual losses, if any, could ultimately differ from these estimates.

We perform a quarterly review of our portfolio of loans. In connection with this review, we assess the performance of each loan and assign a risk rating based on several factors, including risk of loss, loan-to-collateral value ratio (“LTV”), collateral performance, structure, exit plan, and sponsorship. Loans are rated “1” through “5”, from less risk to greater risk, in connection with this review.

Intangible Lease Assets

In accordance with ASC 805, Business Combinations, the acquirer in a business combination must recognize, with certain exceptions, the fair values of assets acquired, liabilities assumed, and non-controlling interests when the acquisition constitutes a change in control of the acquired entity. In connection with the Ireland portfolio acquisition (refer to Note 3 for further discussion) and certain properties acquired from CMBS trusts, we recognized intangible lease assets and liabilities associated with certain noncancelable operating leases of the acquired properties. These intangible lease assets and liabilities include in-place lease intangible assets, favorable lease intangible assets and unfavorable lease liabilities. In-place lease intangible assets reflect the acquired benefit of purchasing properties with in-place leases and are measured based on estimates of direct costs associated with leasing the property and lost rental income during projected lease-up and free rent periods, both of which are avoided due to the presence of in-place leases at the acquisition date. Favorable and unfavorable lease intangible assets and liabilities reflect the terms of in-place tenant leases being either favorable or unfavorable relative to market terms at the acquisition date. The estimated fair values of our favorable and unfavorable lease assets and liabilities at the respective acquisition dates represent the discounted cash flow differential between the contractual cash flows of such leases and the estimated cash flows that comparable leases at market terms would generate. Our intangible lease assets and liabilities are recognized within intangible assets and other liabilities, respectively, in our condensed consolidated balance sheet. Our in-place lease intangible assets are amortized to amortization expense while our favorable and unfavorable lease intangible assets and liabilities are amortized to rental income, both over the remaining noncancelable term of the respective leases on a straight-line basis.

Properties

Our properties consist of commercial real estate properties held-for-investment and are recorded at cost, less accumulated depreciation and impairments, if any. Properties consist primarily of land, buildings and improvements. Land is not depreciated, and buildings and improvements are depreciated on a straight-line basis over their estimated useful lives. Ordinary repairs and maintenance are expensed as incurred; major replacements and betterments are capitalized and depreciated on a straight-line basis over their estimated useful lives. We review properties for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability is determined by comparing the carrying amount of the property to the undiscounted future net cash flows it is expected to generate. If such carrying amounts exceed the expected undiscounted future net cash flows, we adjust the carrying amount of the property to its estimated fair value.

Revenue Recognition

Rental Income

Rental income is recognized when earned from tenants. For leases that provide rent concessions or fixed escalations over the lease term, rental income is recognized on a straight-line basis over the noncancelable term of the lease. In net lease arrangements, costs reimbursable from tenants are recognized in rental income in the period in which the related expenses are incurred as we are generally the primary obligor with respect to purchasing goods and services for property operations.

Acquisition and Investment Pursuit Costs

Costs incurred in connection with acquiring properties, investments, loans and businesses, as well as in pursuing unsuccessful acquisitions and investments, are recorded within acquisition and investment pursuit costs in our condensed consolidated statements of operations when incurred. These costs reflect services performed by third parties and principally include due diligence and legal services.

Earnings Per Share

We present both basic and diluted earnings per share (“EPS”) amounts in our financial statements. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur from (i) our share-based compensation, consisting of unvested restricted stock (“RSAs”) and restricted stock units (“RSUs”), (ii) shares contingently issuable to our Manager, and (iii) the “in-the-money” conversion options associated with our outstanding convertible notes (see further discussion in Note 17). Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

The Company’s unvested RSUs and RSAs contain rights to receive non-forfeitable dividends and thus are participating securities. Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities. For the three and nine months ended September 30, 2015 and 2014, the two-class method resulted in the most dilutive EPS calculation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us 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, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The most significant and subjective estimate that we make is the projection of cash flows we expect to receive on our loans, investment securities and intangible assets, which has a significant impact on the amounts of interest income, credit losses (if any), and fair values that we record and/or disclose. In addition, the fair value of financial assets and liabilities that are estimated using a discounted cash flows method is significantly impacted by the rates at which we estimate market participants would discount the expected cash flows.

Reclassifications

Certain prior period amounts have been reclassified to conform to our current period presentation. In that regard, we have reclassified $39.9 million of commercial real estate properties from other assets to properties, net on our condensed consolidated balance sheet as of December 31, 2014. Additionally, revenues of $3.4 million and $6.5 million previously reported in other revenue have been reclassified to rental income in our condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively. Expenses of $1.8 million and $3.9 million previously reported in other expense have been reclassified to costs of rental operations in our condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively.

Recent Accounting Developments

On February 18, 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis, which amends the criteria for determining which entities are considered VIEs, amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2015. Early application is permitted. We are in the process of assessing what impact this ASU will have on the Company.

On April 7, 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30), which requires entities to present debt issuance costs as a direct deduction from the carrying value of the related debt liability, consistent with debt discounts, rather than as a separate deferred asset as the previous guidance required. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2015. We do not expect the application of this ASU to materially impact the Company.

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. At

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issuance, the ASU was effective for the first interim or annual period beginning after December 15, 2016. On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year, resulting in the ASU becoming effective for the first interim or annual period beginning after December 15, 2017. Early application, which was not permissible under the initial effectiveness timeline, is now permissible though no earlier than as of the first interim or annual period beginning after December 15, 2016. We do not expect the application of this ASU to materially impact the Company.

On September 25, 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) – Simplifying the Accounting for Measurement-Period Adjustments, which requires that the acquirer in a business combination recognize any measurement period adjustments in the period in which the adjustments are identified rather than retrospectively as of the acquisition date, as current GAAP dictates. The ASU shall be applied prospectively and is effective for annual periods, and interim periods therein, beginning after December 15, 2015. Early application is permitted. We intend to early adopt this ASU by recognizing any future measurement period adjustments in the period identified.

3. Acquisitions and Divestitures

Affordable Housing Portfolio Acquisition

In August 2015, we entered into an agreement to acquire 29 affordable housing communities located throughout Florida (the “Affordable Housing Portfolio”) for an aggregate acquisition price of $524.1 million. The acquisition will be fully funded with existing cash on hand and debt totaling $362.8 million, including third party debt and the assumption of pre-existing federal, state and county sponsored financing. The Affordable Housing Portfolio is comprised of 7,870 units concentrated primarily in the Tampa, Orlando and West Palm Beach metropolitan areas.

On October 26, 2015, we entered into an agreement to acquire a 450-unit affordable housing community in Tampa, Florida for $29.1 million.

On October 20, 2015, we acquired seven of the properties for $143.2 million. As of November 5, 2015, the initial accounting for these acquisitions was not sufficiently complete to allow for the inclusion of the ASC 805, Business Combinations, disclosures herein.

The properties not yet acquired remain subject to customary closing conditions. Refer to Note 23 for further discussion.

Ireland Portfolio Acquisition

On July 24, 2015, we acquired a fully occupied net leased office property located in Dublin, Ireland for $121.9 million. This acquisition was partially financed with $80.7 million from the Lender 6 Mortgage facility. This property, along with the 11 net leased fully occupied office properties and one multi-family property acquired in May 2015, comprise the “Ireland Portfolio”. The aggregate cash purchase price for the Ireland Portfolio, which collectively comprises approximately 600,000 square feet, was $226.6 million. In connection with the acquisition, we extinguished $283.0 million of debt assumed, and obtained new financings totaling $328.6 million from the Lender 6 Mortgage facility. Refer to Note 9 for further discussion of this facility. All properties within the Ireland Portfolio were acquired from entities controlled by the same third party investment fund.

We applied the provisions of ASC 805, Business Combinations, in accounting for our acquisition of the Ireland Portfolio. In doing so, we have provisionally recorded all identifiable assets acquired and liabilities assumed at fair value as of the acquisition date. These provisional amounts may be adjusted during the measurement period, which expires no later than one year from the acquisition date, if new information is obtained that, if known, would have affected the amounts recognized as of the acquisition date.

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The following table summarizes the provisional estimates of identified assets acquired and liabilities assumed at the respective acquisition dates (amounts in thousands):

Assets acquired:	
Restricted cash	$ 10,829
Properties	445,369
Intangible assets	59,529
Other assets	11,128
Total assets acquired	526,855
Liabilities assumed:	
Accounts payable, accrued expenses and other liabilities	17,273
Secured financing agreements	283,010
Total liabilities assumed	300,283
Net assets acquired/purchase price	$ 226,572

For the period from their respective acquisition dates through September 30, 2015, we have recognized revenues of $10.8 million and net loss of $4.1 million related to the Ireland Portfolio. Such net loss includes one-time acquisition-related costs, such as legal and due diligence costs, of approximately $3.3 million which are included in acquisition and investment pursuit costs within our condensed consolidated statements of operations. No goodwill was recognized in connection with the Ireland Portfolio acquisition as the purchase price equaled the fair value of the net assets acquired.

The pro-forma revenues and net income attributable to STWD of the combined entity for the three and nine months ended September 30, 2015 and 2014, assuming the Ireland Portfolio acquisition occurred on January 1, 2014, are as follows (amounts in thousands, except per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$ 192,722	$ 190,198	$ 564,574	$ 550,586
Net income attributable to STWD	116,803	164,838	357,314	399,053
Net income per share - Basic	0.49	0.73	1.52	1.85
Net income per share - Diluted	0.49	0.73	1.52	1.85

Pro-forma net income was adjusted to include the following estimated management fees the combined entity would have incurred (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Management fee expense addition	$ 46	$ 1,047	$ 1,605	$ 3,141

SFR Spin-off

On January 31, 2014, we completed the spin-off of our former SFR segment to our stockholders. The real estate investment trust, Starwood Waypoint Residential Trust ("SWAY"), is listed on the New York Stock Exchange ("NYSE") and trades under the ticker symbol "SWAY." Our stockholders received one common share of SWAY for every five shares of our common stock held at the close of business on January 24, 2014. As part of the spin-off, we contributed $100 million to the unlevered balance sheet of SWAY to fund its growth and operations. As of January 31, 2014, SWAY held net assets of $1.1 billion. The net assets of SWAY consisted of approximately 7,200 units of single-family homes and residential non-performing mortgage loans as of January 31, 2014. In connection with the spin-off, 40.1 million shares of SWAY were issued. The results of operations for the SFR segment are presented within discontinued operations in our condensed consolidated statement of operations for the nine months ended September 30, 2014. We have no continuing involvement with the SFR segment following the spin-off. Subsequent to the spin-off, SWAY entered into a management agreement with an affiliate of our Manager. The following table presents the

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summarized consolidated results of discontinued operations for the SFR segment prior to the spin-off (amounts in thousands):

	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2014
Total revenues	$ —	$ 3,876
Total costs and expenses	—	6,369
Loss before other income and income taxes	—	(2,493)
Total other income	—	942
Loss before income taxes	—	(1,551)
Income tax provision	—	—
Net loss	$ —	$ (1,551)

4. Loans

Our loans held-for-investment are accounted for at amortized cost and our loans held-for-sale are accounted for at the lower of cost or fair value, unless we have elected the fair value option. The following tables summarize our investments in mortgages and loans by subordination class as of September 30, 2015 and December 31, 2014 (amounts in thousands):

September 30, 2015	Carrying Value	Face Amount	Weighted Average Coupon	Weighted Average Life (“WAL”) (years)(3)
First mortgages (1)	$ 4,533,689	$ 4,588,988	6.1 %	3.0

Subordinated mortgages (2)	399,381	424,957	8.6	%	3.6
Mezzanine loans (1)	888,158	873,081	10.0	%	2.2
Total loans held-for-investment	5,821,228	5,887,026			
Loans held-for-sale (carrying value of $423,630 under fair value option)	450,828	447,204	4.8	%	8.9
Loans transferred as secured borrowings	142,456	143,926	6.0	%	2.2
Total gross loans	6,414,512	6,478,156			
Loan loss allowance (loans held-for-investment)	(6,342)	—			
Total net loans	$ 6,408,170	$ 6,478,156			
December 31, 2014					
First mortgages (1)	$ 4,538,961	$ 4,609,526	6.2	%	3.5
Subordinated mortgages (2)	345,091	374,859	8.1	%	3.9
Mezzanine loans (1)	901,217	889,948	10.4	%	2.6
Total loans held-for-investment	5,785,269	5,874,333			
Loans held-for-sale, fair value option elected	391,620	390,342	4.5	%	8.3
Loans transferred as secured borrowings	129,427	129,570	5.4	%	2.5
Total gross loans	6,306,316	6,394,245			
Loan loss allowance (loans held-for-investment)	(6,031)	—			
Total net loans	$ 6,300,285	$ 6,394,245			

(1) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan. The application of this methodology resulted in mezzanine loans with carrying values of $892.3 million and $704.2 million being classified as first mortgages as of September 30, 2015 and December 31, 2014, respectively.

(2) Subordinated mortgages include B-notes and junior participation in first mortgages where we do not own the senior A-note or senior participation. If we own both the A-note and B-note, we categorize the loan as a first mortgage loan.

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(3) Represents the WAL of each respective group of loans as of the respective balance sheet date. The WAL of each individual loan is calculated using amounts and timing of future principal payments, as projected at origination.

As of September 30, 2015, approximately $4.8 billion, or 81.9%, of our loans held-for-investment were variable rate and paid interest principally at LIBOR plus a weighted-average spread of 6.1%. The following table summarizes our investments in floating rate loans (amounts in thousands):

	September 30, 2015			December 31, 2014		
Index	Base Rate		Carrying Value	Base Rate		Carrying Value
One-month LIBOR USD	0.1930	%	$ 463,214	0.1713	%	$ 138,576
Three-month LIBOR GBP	0.5831	%	411,122	0.5640	%	440,222
LIBOR floor	0.15 - 3.00	% (1)	3,895,721	0.15 - 3.00	% (1)	3,889,412
Total			$ 4,770,057			$ 4,468,210

(1) The weighted-average LIBOR Floor was 0.31% and 0.35% as of September 30, 2015 and December 31, 2014, respectively.

Our loans are typically collateralized by real estate. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash flow from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan at maturity, and/or (iii) the property's liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

Our evaluation process as described above produces an internal risk rating between 1 and 5, which is a weighted average of the numerical ratings in the following categories: (i) sponsor capability and financial condition, (ii) loan and collateral performance relative to underwriting, (iii) quality and stability of collateral cash flows, and (iv) loan structure. We utilize the overall risk ratings as a concise means to monitor any credit migration on a loan as well as on the whole portfolio. While the overall risk rating is generally not the sole factor we use 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.

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The rating categories generally include the characteristics described below, but these are utilized as guidelines and therefore not every loan will have all of the characteristics described in each category:

Rating	Characteristics
1	Sponsor capability and financial condition—Sponsor is highly rated or investment grade or, if private, the equivalent thereof with significant management experience. Loan collateral and performance relative to underwriting—The collateral has surpassed underwritten expectations. Quality and stability of collateral cash flows—Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix. Loan structure—LTV does not exceed 65%. The loan has structural features that enhance the credit profile.
2	Sponsor capability and financial condition—Strong sponsorship with experienced management team and a responsibly leveraged portfolio. Loan collateral and performance relative to underwriting—Collateral performance equals or exceeds underwritten expectations and covenants and performance criteria are being met or exceeded. Quality and stability of collateral cash flows—Occupancy is stabilized with a diverse tenant mix. Loan structure—LTV does not exceed 70% and unique property risks are mitigated by structural features.
3	Sponsor capability and financial condition—Sponsor has historically met its credit obligations, routinely pays off loans at maturity, and has a capable management team. Loan collateral and performance relative to underwriting—Property performance is consistent with underwritten expectations. Quality and stability of collateral cash flows—Occupancy is stabilized, near stabilized, or is on track with underwriting. Loan structure—LTV does not exceed 80%.
4	Sponsor capability and financial condition—Sponsor credit history includes missed payments, past due payment, and maturity extensions. Management team is capable but thin. Loan collateral and performance relative to underwriting—Property performance lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. A sale of the property may be necessary in order for the borrower to pay off the loan at maturity. Quality and stability of collateral cash flows—Occupancy is not stabilized and the property has a large amount of rollover. Loan structure—LTV is 80% to 90%.
5	Sponsor capability and financial condition—Credit history includes defaults, deeds in lieu, foreclosures, and/or bankruptcies. Loan collateral and performance relative to underwriting—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. Sale proceeds would not be sufficient to pay off the loan at maturity. Quality and stability of collateral cash flows—The property has material vacancy and significant rollover of remaining tenants. Loan structure—LTV exceeds 90%.

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As of September 30, 2015, the risk ratings for loans subject to our rating system, which excludes loans on the cost recovery method and loans for which the fair value option has been elected, by class of loan were as follows (amounts in thousands):

	Balance Sheet Classification							
	Loans Held-For-Investment			Cost		Loans Transferred		% of
Risk Rating Category	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Recovery Loans	Loans Held-For-Sale	As Secured Borrowings	Total	Total Loans
1	$ 702	$ —	$ —	$ —	$ —	$ —	$ 702	— %
2	396,967	88,195	119,702	—	—	—	604,864	9.4 %
3	3,863,862	278,140	650,859	—	—	142,456	4,935,317	76.9 %
4	272,158	33,046	117,597	—	—	—	422,801	6.6 %
5	—	—	—	—	—	—	—	— %
N/A	—	—	—	—	450,828	—	450,828	7.1 %
	$ 4,533,689	$ 399,381	$ 888,158	$ —	$ 450,828	$ 142,456	$ 6,414,512	100.0 %

As of December 31, 2014, the risk ratings for loans subject to our rating system by class of loan were as follows (amounts in thousands):

	Balance Sheet Classification							
	Loans Held-For-Investment			Cost		Loans Transferred		% of
Risk Rating Category	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Recovery Loans	Loans Held-For-Sale	As Secured Borrowings	Total	Total Loans
1	$ 822	$ —	$ —	$ —	$ —	$ —	$ 822	— %
2	258,822	116,168	148,582	—	—	—	523,572	8.3 %
3	4,120,562	196,476	645,778	—	—	129,427	5,092,243	80.7 %
4	109,489	32,447	106,857	—	—	—	248,793	4.0 %
5	45,974	—	—	—	—	—	45,974	0.7 %
N/A	—	—	—	3,292	391,620	—	394,912	6.3 %
	$ 4,535,669	$ 345,091	$ 901,217	$ 3,292	$ 391,620	$ 129,427	$ 6,306,316	100.0 %

As of September 30, 2015, the Lending Segment held a $61.0 million mezzanine loan on a luxury condominium project located in New York, of which $18.6 million is greater than 90 days past due. After completing our impairment evaluation process, we concluded that no impairment charges were required on this loan or any other individual loans held-for-investment as of September 30, 2015 or December 31, 2014, as we expect to collect all outstanding principal and interest. During the three months ended September 30, 2015, the Investing and Servicing Segment received full repayments of its basis in the two remaining loans held-for-investment which were greater than 90 days past due and were acquired as part of the acquisition of LNR Property LLC ("LNR") in April 2013. None of our held-for-sale loans where we have elected the fair value option were 90 days or greater past due.

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In accordance with our policies, we record an allowance for loan losses equal to (i) 1.5% of the aggregate carrying amount of loans rated as a "4," plus (ii) 5% of the aggregate carrying amount of loans rated as a "5." The following table presents the activity in our allowance for loan losses (amounts in thousands):

	For the Nine Months Ended September 30, 2015	2014
Allowance for loan losses at January 1	$ 6,031	$ 3,984
Provision for loan losses	311	1,933
Charge-offs	—	—
Recoveries	—	—
Allowance for loan losses at September 30	$ 6,342	$ 5,917
Recorded investment in loans related to the allowance for loan loss	$ 422,801	$ 287,231

The activity in our loan portfolio was as follows (amounts in thousands):

	For the Nine Months Ended September 30, 2015	2014
Balance at January 1	$ 6,300,285	$ 4,750,804
Acquisitions/originations/additional funding	3,114,293	3,283,546
Capitalized interest (1)	51,416	31,994
Basis of loans sold (2)	(2,040,380)	(1,505,764)
Loan maturities/principal repayments	(1,055,419)	(1,009,222)
Discount accretion/premium amortization	26,615	16,756
Changes in fair value	51,044	48,018
Unrealized foreign currency remeasurement loss	(30,529)	(21,088)
Change in loan loss allowance, net	(311)	(1,933)
Transfer to/from other asset classifications	(8,844)	(3,503)
Balance at September 30	$ 6,408,170	$ 5,589,608

(1) Represents accrued interest income on loans whose terms do not require current payment of interest.
(2) See Note 11 for additional disclosure on these transactions.

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5. Investment Securities

Investment securities were comprised of the following as of September 30, 2015 and December 31, 2014 (amounts in thousands):

	Carrying Value as of	
	September 30, 2015	December 31, 2014
RMBS, available-for-sale	$ 184,785	$ 207,053
Single-borrower CMBS, available-for-sale	—	100,349
CMBS, fair value option (1)	927,315	753,553
Held-to-maturity (“HTM”) securities	365,005	441,995
Equity security, fair value option	14,311	15,120
Subtotal—Investment securities	1,491,416	1,518,070
VIE eliminations (1)	(704,955)	(519,822)
Total investment securities	$ 786,461	$ 998,248

(1) Certain fair value option CMBS are eliminated in consolidation against VIE liabilities pursuant to ASC 810.

Purchases, sales and principal collections for all investment securities were as follows (amounts in thousands):

	Available-for-sale		CMBS, fair	HTM	Equity	
	RMBS	CMBS	value option	Securities	Security	Total
Three Months Ended September 30, 2015						
Purchases	$ —	$ —	$ 5,665	$ 9,930	$ —	$ 15,595
Sales	—	—	1,203	—	—	1,203
Principal collections	8,500	91,794	1	21	—	100,316
Three Months Ended September 30, 2014						
Purchases	$ —	$ —	$ 13,777	$ —	$ —	$ 13,777
Sales	5,588	—	—	—	—	5,588
Principal collections	21,870	—	1	14	—	21,885

	Available-for-sale RMBS	CMBS	CMBS, fair value option	HTM Securities	Equity Security	Total
Nine Months Ended September 30, 2015						
Purchases	$ —	$ —	$ 14,653	$ 148,365	$ —	$ 163,018
Sales	—	—	6,301	—	—	6,301
Principal collections	27,114	92,018	2	228,956	—	348,090
Nine Months Ended September 30, 2014						
Purchases	$ —	$ —	$ 67,230	$ —	$ —	$ 67,230
Sales	68,134	—	32,032	—	—	100,166
Principal collections	40,155	805	1	38	—	40,999

RMBS and Single-borrower CMBS, Available-for-Sale

With the exception of six CMBS classified as HTM, the Company classified all of its RMBS and any CMBS investments where the fair value option has not been elected as available-for-sale as of September 30, 2015 and December 31, 2014. These RMBS and CMBS are reported at fair value in the balance sheet with changes in fair value recorded in accumulated other comprehensive income (“AOCI”).

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The tables below summarize various attributes of our investments in available-for-sale RMBS and single-borrower CMBS where the fair value option has not been elected as of September 30, 2015 and December 31, 2014 (amounts in thousands):

	Purchase Amortized Cost	Credit OTTI	Recorded Amortized Cost	Unrealized Gains or (Losses) Recognized in AOCI: Non-Credit OTTI	Gross Unrealized Gains	Gross Unrealized Losses	Net Fair Value Adjustment	Fair Value
September 30, 2015								
RMBS	$ 153,694	$ (10,184)	$ 143,510	$ (175)	$ 41,450	$ —	$ 41,275	$ 184,785
Single-borrower CMBS	—	—	—	—	—	—	—	—
Total	$ 153,694	$ (10,184)	$ 143,510	$ (175)	$ 41,450	$ —	$ 41,275	$ 184,785
December 31, 2014								
RMBS	$ 163,733	$ (10,197)	$ 153,536	$ (197)	$ 53,714	$ —	$ 53,517	$ 207,053
Single-borrower CMBS	93,685	—	93,685	—	6,664	—	6,664	100,349
Total	$ 257,418	$ (10,197)	$ 247,221	$ (197)	$ 60,378	$ —	$ 60,181	$ 307,402

	Weighted Average Coupon(1)	Weighted Average Rating (Standard & Poor's)	WAL (Years)(2)
September 30, 2015			
RMBS	1.1 %	B−	6.3
Single-borrower CMBS	— %	—	—
December 31, 2014			
RMBS	1.1 %	B−	5.8
Single-borrower CMBS	11.6 %	BB+	3.2

(1) Calculated using the September 30, 2015 and December 31, 2014 one-month LIBOR rate of 0.193% and 0.171%, respectively, for floating rate securities.

(2) Represents the WAL of each respective group of securities as of the respective balance sheet date. The WAL of each individual security is calculated using projected amounts and projected timing of future principal payments.

As of September 30, 2015, there were no variable rate single-borrower CMBS. As of December 31, 2014, $0.2 million, or 0.2%, of the single-borrower CMBS were variable rate. As of September 30, 2015, approximately $128.4 million, or 69.5%, of the RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.43%. As of December 31, 2014, approximately $140.1 million, or 67.7%, of the RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.44%. We purchased all of the RMBS at a discount that will be accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of these discounts.

The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS and single-borrower CMBS as of September 30, 2015 and December 31, 2014, excluding CMBS where we have elected the fair value option (amounts in thousands):

	September 30, 2015		December 31, 2014	
	RMBS	CMBS	RMBS	CMBS
Principal balance	$ 242,219	$ —	$ 270,783	$ 93,685
Accretable yield	(73,361)	—	(85,495)	—
Non-accretable difference	(25,348)	—	(31,752)	—
Total discount	(98,709)	—	(117,247)	—
Amortized cost	$ 143,510	$ —	$ 153,536	$ 93,685

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The principal balance of credit deteriorated RMBS was $205.2 million and $222.9 million as of September 30, 2015 and December 31, 2014, respectively. Accretable yield related to these securities totaled $61.9 million and $66.6 million as of September 30, 2015 and December 31, 2014, respectively.

The following table discloses the changes to accretable yield and non-accretable difference for our RMBS during the three and nine months ended September 30, 2015 (amounts in thousands):

Three Months Ended September 30, 2015	Accretable Yield	Non-Accretable Difference
Balance as of July 1, 2015	$ 74,184	$ 28,609
Accretion of discount	(3,600)	—
Principal write-downs	—	(484)
Purchases	—	—
Sales	—	—
OTTI	—	—
Transfer to/from non-accretable difference	2,777	(2,777)
Balance as of September 30, 2015	$ 73,361	$ 25,348
Nine Months Ended September 30, 2015		
Balance as of January 1, 2015	$ 85,495	$ 31,752
Accretion of discount	(17,087)	—
Principal write-downs	—	(1,451)
Purchases	—	—
Sales	—	—
OTTI	—	—
Transfer to/from non-accretable difference	4,953	(4,953)
Balance as of September 30, 2015	$ 73,361	$ 25,348

Subject to certain limitations on durations, we have allocated an amount to invest in RMBS that cannot exceed 10% of our total assets excluding Investing and Servicing Segment VIEs. We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was $0.4 million for both the three months ended September 30, 2015 and 2014, and $1.1 million and $1.5 million for the nine months ended September 30, 2015 and 2014, respectively, which has been recorded as management fees in the accompanying condensed consolidated statements of operations.

The following table presents the gross unrealized losses and estimated fair value of the available-for-sale securities (i) where we have not elected the fair value option, (ii) that were in an unrealized loss position as of September 30, 2015 and December 31, 2014, and (iii) for which OTTIs (full or partial) have not been recognized in earnings (amounts in thousands):

	Estimated Fair Value		Unrealized Losses	
	Securities with a loss less than 12 months	Securities with a loss greater than 12 months	Securities with a loss less than 12 months	Securities with a loss greater than 12 months
As of September 30, 2015				
RMBS	$ 12,320	$ 678	$ (25)	$ (150)
Single-borrower CMBS	—	—	—	—
Total	$ 12,320	$ 678	$ (25)	$ (150)
As of December 31, 2014				
RMBS	$ —	$ 682	$ —	$ (197)
Single-borrower CMBS	—	—	—	—
Total	$ —	$ 682	$ —	$ (197)

As of September 30, 2015 and December 31, 2014, there were two securities with unrealized losses reflected in the table above. After evaluating these securities and recording adjustments for credit-related other-than-temporary

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impairment, we concluded that the remaining unrealized losses reflected above were noncredit-related and would be recovered from the securities' estimated future cash flows. We considered a number of factors in reaching this conclusion, including that we did not intend to sell the securities, it was not considered more likely than not that we would be forced to sell the securities prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Credit losses, which represent most of the other-than-temporary impairments we record on securities, are calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to (ii) our amortized cost basis. Significant judgment is used in projecting cash flows for our non-agency RMBS. As a result, actual income and/or impairments could be materially different from what is currently projected and/or reported.

CMBS, Fair Value Option

As discussed in the "Fair Value Option" section of Note 2 herein, we elect the fair value option for the Investing and Servicing Segment's CMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of September 30, 2015, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, were $927.3 million and $4.5 billion, respectively. These balances represent our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value ($705.0 million at September 30, 2015) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS. During the three and nine months ended September 30, 2015, we purchased $115.0 million and $213.2 million of CMBS, respectively, for which we elected the fair value option. Due to our consolidation of securitization VIEs, $109.4 million and $198.6 million, respectively, of these amounts are eliminated and reflected primarily as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows.

As of September 30, 2015, none of our CMBS where we have elected the fair value option were variable rate. The table below summarizes various attributes of our investment in fair value option CMBS as of September 30, 2015 and December 31, 2014 (amounts in thousands):

	Weighted Average Coupon		Weighted Average Rating (Standard & Poor's) (1)	WAL (Years)(2)
September 30, 2015				
CMBS, fair value option	3.5	%	CCC+	7.4
December 31, 2014				
CMBS, fair value option	3.9	%	CCC−	7.7

(1) As of September 30, 2015 and December 31, 2014, excludes $35.8 million and $41.7 million, respectively, in fair value option CMBS that are not rated.

(2) The WAL of each security is calculated based on the period of time over which we expect to receive principal cash flows. Expected principal cash flows are based on contractual payments net of expected losses.

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HTM Securities

The table below summarizes unrealized gains and losses of our investments in HTM securities as of September 30, 2015 and December 31, 2014 (amounts in thousands):

	Net Carrying Amount (Amortized Cost)	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
September 30, 2015				
Preferred interests	$ 81,968	$ —	$ (827)	$ 81,141
CMBS	283,037	43	(2,195)	280,885
Total	$ 365,005	$ 43	$ (3,022)	$ 362,026
December 31, 2014				
Preferred interests	$ 307,465	$ —	$ (1,366)	$ 306,099
CMBS	134,530	—	—	134,530
Total	$ 441,995	$ —	$ (1,366)	$ 440,629

The table below summarizes the maturities of our HTM preferred equity interests in limited liability companies that own commercial real estate and our HTM CMBS as of September 30, 2015 (amounts in thousands):

	Preferred Interests	CMBS	Total
Less than one year	$ —	$ —	$ —
One to three years	—	283,037	283,037
Three to five years	62,704	—	62,704
Thereafter	19,264	—	19,264
Total	$ 81,968	$ 283,037	$ 365,005

Equity Security, Fair Value Option

During 2012, we acquired 9,140,000 ordinary shares from a related-party (approximately a 4% interest) in Starwood European Real Estate Finance Limited (“SEREF”), a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange. We have elected to report the investment using the fair value option because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market, and also due to potential lags in reporting resulting from differences in the respective regulatory requirements. The fair value of the investment remeasured in USD was $14.3 million and $15.1 million as of September 30, 2015 and December 31, 2014, respectively.

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6. Properties

On July 24, 2015, we acquired a fully occupied net leased office property located in Dublin, Ireland for $121.9 million. This acquisition was partially financed with $80.7 million from the Lender 6 Mortgage facility (see Note 9 for facility terms). This property, with the 11 net leased fully occupied office properties and one multi-family property acquired in May 2015, comprise the Ireland Portfolio discussed in Note 3.

Also during the three and nine months ended September 30, 2015, our Investing and Servicing Segment acquired three and six commercial real estate properties, respectively, from CMBS trusts for $32.5 million and $65.9 million, respectively. These properties are generally acquired from CMBS trusts that are consolidated as VIEs on our balance sheet. As a result, the acquisitions are generally reflected as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows.

The below table summarizes our properties held as of September 30, 2015 and December 31, 2014 (dollar amounts in thousands):

	Depreciable Life	September 30, 2015	December 31, 2014
Property Segment			
Land	—	$ 162,274	$ —
Buildings	30 years	286,913	—
Investing and Servicing Segment			
Land	—	20,972	8,225
Land improvements	5 – 15 years	70	—
Buildings	20 – 40 years	63,619	30,637
Building improvements	5 – 10 years	240	—
Furniture & fixtures	3 years	680	1,635
Properties, cost		534,768	40,497
Less: accumulated depreciation		(4,330)	(643)
Properties, net		$ 530,438	$ 39,854

In March 2015, the Investing and Servicing Segment sold an operating property that we had previously acquired from a CMBS trust. The sale resulted in a $17.1 million gain, which is included in gain on sale of investments and other assets in our condensed consolidated statement of operations for the nine months ended September 30, 2015.

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7. Investment in Unconsolidated Entities

The below table summarizes our investments in unconsolidated entities as of September 30, 2015 and December 31, 2014 (dollar amounts in thousands):

	Participation / Ownership %(1)	Carrying value as of September 30, 2015	December 31, 2014
Equity method:			
Retail Fund	33%	$ 121,733	$ 129,475
Investor entity which owns equity in two real estate services providers	50%	23,366	21,534
Equity interests in commercial real estate (2)	16% - 43%	28,224	—
Bridge loan venture (3)	various	—	8,417
Various	25% - 50%	7,061	16,933
		180,384	176,359
Cost method:			
Investment funds which own equity in a loan servicer and other real estate assets	4% - 6%	9,225	9,225
Various	0% - 3%	9,562	8,399
		18,787	17,624
		$ 199,171	$ 193,983

(1) None of these investments are publicly traded and therefore quoted market prices are not available.
(2) During the nine months ended September 30, 2015, we acquired $28.0 million of equity interests in limited liability companies that own ten office and student housing properties throughout the U.S.
(3) During the three months ended September 30, 2015, we sold our interest in the Bridge Loan Venture at par.

There were no differences between the carrying value of our investment in unconsolidated entities and the underlying equity in the net assets of the investees as of September 30, 2015.

8. Goodwill and Intangible Assets

Goodwill

Goodwill at September 30, 2015 and December 31, 2014 represents the excess of consideration transferred over the fair value of net assets of LNR acquired on April 19, 2013. The goodwill recognized is attributable to value embedded in LNR's existing platform, which includes an international network of commercial real estate asset managers, work-out specialists, underwriters and administrative support professionals as well as proprietary historical performance data on commercial real estate assets.

Intangible Assets

Servicing Rights Intangibles

In connection with the LNR acquisition, we identified domestic and European servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. All of our servicing fees are specified by these Pooling and Servicing Agreements. At September 30, 2015 and December 31, 2014, the balance of the domestic servicing intangible was net of $27.9 million and $46.1 million, respectively, that was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs.

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Before VIE consolidation, as of September 30, 2015 and December 31, 2014 the domestic servicing intangible had a balance of $151.8 million and $178.4 million, respectively, which represents our economic interest in this asset.

Lease Intangibles

In connection with our acquisitions of commercial real estate, we recognized in-place lease intangible assets and favorable lease intangible assets associated with certain noncancelable operating leases of the acquired properties. The weighted-average amortization periods for the in-place lease intangible assets and the favorable lease intangible assets for the Ireland Portfolio at acquisition were 10.0 years and 11.2 years, respectively, as of September 30, 2015.

The following table summarizes our intangible assets, which are comprised of servicing rights intangibles and lease intangibles, as of September 30, 2015 and December 31, 2014 (amounts in thousands):

	As of September 30, 2015			As of December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Domestic servicing rights, at fair value	$ 123,892	$ —	$ 123,892	$ 132,303	$ —	$ 132,303
European servicing rights (1)	32,429	(28,657)	3,772	33,392	(21,543)	11,849
In-place lease intangible assets	54,245	(3,397)	50,848	—	—	—
Favorable lease intangible assets	13,074	(506)	12,568	—	—	—
Total net intangible assets	$ 223,640	$ (32,560)	$ 191,080	$ 165,695	$ (21,543)	$ 144,152

(1) The fair value as of September 30, 2015 and December 31, 2014 was $7.7 million and $12.7 million, respectively.

The following table summarizes the activity within intangible assets for the nine months ended September 30, 2015 (amounts in thousands):

	Domestic Servicing Rights	European Servicing Rights	In-place Lease Intangible Assets	Favorable Lease Intangible Assets	Total

Balance as of January 1, 2015	$ 132,303	$ 11,849	$ —	$ —	$ 144,152
Acquisition of Ireland Portfolio	—	—	47,999	11,530	59,529
Properties acquired from CMBS trusts	—	—	5,842	1,412	7,254
Amortization	—	(7,814)	(3,384)	(504)	(11,702)
Foreign exchange (loss) gain	—	(263)	391	130	258
Changes in fair value due to changes in inputs and assumptions	(8,411)	—	—	—	(8,411)
Balance as of September 30, 2015	$ 123,892	$ 3,772	$ 50,848	$ 12,568	$ 191,080

The following table sets forth the estimated aggregate amortization of our European servicing rights, in-place lease intangible assets and favorable lease intangible assets for the next five years and thereafter (amounts in thousands):

2015 (remainder of)	$ 3,839
2016	12,039
2017	8,560
2018	7,855
2019	6,700
Thereafter	28,195
Total	$ 67,188

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9. Secured Financing Agreements

The following table is a summary of our secured financing agreements in place as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	Current Maturity	Extended Maturity(a)	Pricing	Pledged Asset Carrying Value	Maximum Facility Size	Carrying Value at September 30, 2015	Carrying Value at December 31, 2014
Lender 1 Repo 1	(b)	(b)	LIBOR + 1.85% to 5.25%	$ 1,471,791	$ 1,600,000	$ 916,310	$ 875,111
Lender 1 Repo 2	(c)	N/A	LIBOR + 1.90%	184,785	125,000	6,948	101,886
Lender 2 Repo 1	Oct 2015	Oct 2018	LIBOR + 1.75% to 2.75%	373,917	325,000	272,824	240,188
Lender 3 Repo 1	May 2017	May 2019	LIBOR + 2.85%	229,983	162,917	162,917	124,250
Conduit Repo 1	Sep 2016	N/A	LIBOR + 1.95% to 3.35%	116,084	150,000	85,849	94,727
Conduit Repo 2	Nov 2015	Nov 2016	LIBOR + 2.10%	164,310	150,000	121,556	113,636
Conduit Repo 3	Feb 2018	Feb 2019	LIBOR + 2.10%	107,389	150,000	79,847	—
Lender 4 Repo 1	Oct 2016	Oct 2017	LIBOR + 2.00%	405,195	317,688	317,688	327,117
Lender 5 Repo 1	(d)	N/A	N/A	—	—	—	58,079
Lender 6 Repo 1	Aug 2018	N/A	LIBOR + 2.50% to 3.00%	733,579	500,000	367,010	296,967
Lender 6 Mortgage	May 2020	N/A	EURIBOR + 1.69%	502,497	328,602	328,602	—
Lender 7 Repo 1	Dec 2016	N/A	LIBOR + 2.35% to 2.70%	140,274	107,416	107,416	39,024
Investing and Servicing Segment Property Mortgages	June 2018 to Nov 2024	N/A	Various	43,688	38,975	31,835	14,000

Lender 9 Repo 1	(e)	(e)	LIBOR + 1.40% to 1.85%		319,853	225,313		225,313		—	
Borrowing Base	Jul 2018	Jul 2019	LIBOR + 2.75%	(f)	222,770	450,000	(g)	—		189,871	
Term Loan	Apr 2020	N/A	LIBOR + 2.75%	(f)	3,296,673	659,962		658,159	(h)	662,933	(h)
FHLB Advances	N/A	N/A	Various		—	1,000,000		—		—	
					$ 8,312,788	$ 6,290,873		$ 3,682,274		$ 3,137,789	

(a) Subject to certain conditions as defined in the respective facility agreement.
(b) Maturity date for borrowings collateralized by loans of January 2017 before extension options and January 2019 assuming initial extension options. Borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions and not to exceed January 2023.
(c) The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 2017.
(d) Facility was terminated at our option in March 2015.
(e) Facility carries a rolling twelve month term which may reset monthly with the lender's consent. Current maturity is September 2016. Facility carries no maximum facility size. Amount herein reflects the outstanding balance as of September 30, 2015.
(f) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement. The Term Loan is also subject to a 75 basis point floor.
(g) Subject to certain conditions defined in the facility agreement, the maximum facility size may be increased to $650.0 million.
(h) Term loan outstanding balance is net of $1.8 million and $2.1 million of unamortized discount as of September 30, 2015 and December 31, 2014, respectively.

In the normal course of business, the Company is in discussions with its lenders to extend or amend any financing facilities which contain near term expirations.

In February 2015, we executed a $150.0 million repurchase facility ("Conduit Repo 3") with an existing lender for our Investing and Servicing Segment's conduit platform. The facility carries a three year initial term with a one year extension option and an annual interest rate of LIBOR +2.10%.

In March 2015, we executed a repurchase facility ("Lender 9 Repo 1") with a new lender to finance certain CMBS holdings, including CMBS holdings previously financed under the Lender 5 Repo 1 facility which was terminated at our option in March 2015. There is no maximum facility size specified under the facility as the lender will evaluate all eligible collateral on an individual basis. The facility carries a rolling twelve month term which may reset

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monthly with the lender's consent and an annual interest rate of LIBOR +1.40% to LIBOR +1.85% depending on the CMBS collateral.

In April 2015, we amended the Lender 4 Repo 1 facility to reduce pricing.

In May 2015, we executed a €294.0 million mortgage facility ("Lender 6 Mortgage") to finance the acquisition of the Ireland Portfolio, of which €73.5 million was drawn during the three months ended September 30, 2015. The facility carries a five year term, an annual interest rate of EURIBOR + 1.69% and was fully funded as of September 30, 2015. Refer to Note 3 for further discussion of this acquisition. During the nine months ended September 30, 2015, we incurred deferred financing costs of $5.7 million associated with this facility.

In July 2015, we exercised a one-year extension option on the Lender 6 Repo 1 facility, extending the maturity from August 2017 to August 2018.

In July 2015, we amended the Borrowing Base facility to (i) permanently upsize available borrowings from $250.0 million to $450.0 million; (ii) extend the maturity date to July 2019 assuming exercise of a one-year extension option; and (iii) reduce pricing.

In July 2015, we exercised a one-year extension option on the Lender 4 Repo 1 facility, extending the maturity from October 2015 to October 2016.

In August 2015, we amended the Lender 1 Repo 1 facility to upsize available borrowings from $1.25 billion to $1.6 billion.

During the nine months ended September 30, 2015, we executed two mortgage facilities with aggregate borrowings of $17.8 million to finance commercial real estate acquired by our Investing and Servicing Segment. At inception, these facilities carry a weighted average term of 4.2 years and weighted average interest rate of LIBOR + 2.41%.

In September 2015, we were admitted as a member of the Federal Home Loan Bank ("FHLB") of Des Moines, which provides us an additional financing source for various multifamily and commercial real estate loans and investment securities. As of September 30, 2015, we had no outstanding borrowings with the FHLB.

Our secured financing agreements contain certain financial tests and covenants. Should we breach certain of these covenants, it may restrict our ability to pay dividends in the future. As of September 30, 2015, we were in compliance with all such covenants.

The following table sets forth our five-year principal repayments schedule for secured financings, assuming no defaults and excluding loans transferred as secured borrowings. Our credit facilities generally require principal to be paid down prior to the facilities' respective maturities if and when we receive principal payments on, or sell, the investment collateral that we have pledged. The amount reflected in each period includes principal repayments on our credit facilities that would be required if (i) we received the repayments that we expect to receive on the investments that have been pledged as collateral under the credit facilities, as applicable, and (ii) the credit facilities that are expected to have

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amounts outstanding at their current maturity dates are extended where extension options are available to us (amounts in thousands):

	Repurchase Agreements	Other Secured Financing		Total
2015 (remainder of)	$ 302,104	$ 1,692		$ 303,796
2016	249,929	6,769		256,698
2017	928,144	6,769		934,913
2018	626,982	19,054		646,036
2019	556,519	6,769		563,288
Thereafter	—	979,347	(1)	979,347
Total	$ 2,663,678	$ 1,020,400		$ 3,684,078

(1) Principal paydown of the Term Loan through 2020 excludes $1.8 million of discount amortization.

Secured financing maturities for 2015 primarily relate to $287.3 million on the Conduit Repo facilities.

As of September 30, 2015 and December 31, 2014, we had approximately $29.6 million and $26.5 million, respectively, of deferred financing costs from secured financing agreements, net of amortization, which is included in other assets on our condensed consolidated balance sheets. For the three and nine months ended September 30, 2015, approximately $3.8 million and $10.8 million, respectively, of amortization was included in interest expense on our condensed consolidated statements of operations. For the three and nine months ended September 30, 2014, approximately $2.9 million and $8.2 million, respectively, of amortization was included in interest expense on our condensed consolidated statements of operations.

As of September 30, 2015 and December 31, 2014, the outstanding balance of our repurchase agreements related to the following asset collateral classes (amounts in thousands):

Class of Collateral	September 30, 2015	December 31, 2014
Loans held-for-investment	$ 2,036,748	$ 1,863,633
Loans held-for-sale	287,252	208,363
Investment securities	339,678	198,989
	$ 2,663,678	$ 2,270,985

We seek to mitigate risks associated with our repurchase agreements by managing risk related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value. The margin call provisions under the majority of our repurchase facilities, consisting of 76% of these agreements, do not permit valuation adjustments based on capital markets activity. Instead, margin calls on these facilities are limited to collateral-specific credit marks. To monitor credit risk associated with the performance and value of our loans and investments, our asset management team regularly reviews our investment portfolios and is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary. For repurchase agreements containing margin call provisions for general capital markets activity, approximately half of these pertain to our loans held-for-sale, for which we manage credit risk through the purchase of credit index instruments. We further seek to manage risks associated with our repurchase agreements by matching the maturities and interest rate characteristics of our loans with the related repurchase agreements.

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10. Convertible Senior Notes

On October 8, 2014, we issued $431.3 million of 3.75% Convertible Senior Notes due 2017 (the "2017 Notes"). On February 15, 2013, we issued $600.0 million of 4.55% Convertible Senior Notes due 2018 (the "2018 Notes"). On July 3, 2013, we issued $460.0 million of 4.00% Convertible Senior Notes due 2019 (the "2019 Notes"). The following summarizes the unsecured convertible senior notes (collectively, the "Convertible Notes") outstanding as of September 30, 2015 (amounts in thousands, except rates):

	Principal Amount	Coupon Rate		Effective Rate(1)		Conversion Rate(2)	Maturity Date	Remaining Period of Amortization	
2017 Notes	$ 431,250	3.75	%	5.87	%	41.7397	10/15/2017	2.0	years
2018 Notes	$ 599,981	4.55	%	6.10	%	45.8850	3/1/2018	2.4	years
2019 Notes	$ 341,363	4.00	%	5.37	%	48.6931	1/15/2019	3.3	years

	As of September 30, 2015	As of December 31, 2014
Total principal	$ 1,372,594	$ 1,491,228
Net unamortized discount	(52,387)	(73,206)
Carrying amount of debt components	$ 1,320,207	$ 1,418,022
Carrying amount of conversion option equity components recorded in additional paid-in capital	$ 46,343	$ 64,070

(1) Effective rate includes the effects of underwriter purchase discount and the adjustment for the conversion option, the value of which reduced the initial liability and was recorded in additional paid-in-capital.

(2) The conversion rate represents the number of shares of common stock issuable per $1,000 principal amount of Convertible Notes converted, as adjusted in accordance with the applicable indentures as a result of the spin-off of the SFR segment and cash dividend payments. The if-converted values of the 2017 Notes, 2018 Notes and 2019 Notes were less than their principal amounts by $61.9 million, $35.0 million, and $0.3 million at September 30, 2015, respectively, since the closing market price of the Company's common stock of $20.52 per share was less than the implicit conversion prices of $23.96, $21.79, and $20.54, respectively. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, conversion of this principal amount, totaling 62.2 million shares, was not included in the computation of diluted earnings per share

("EPS"). No dilution related to the 2017 Notes, 2018 Notes or 2019 Notes was included in the computation of diluted EPS for the three and nine months ended September 30, 2015 as these notes were not "in-the-money". See further discussion at Note 17.

Under the repurchase program approved by our board of directors (refer to Note 16), we repurchased $118.6 million aggregate principal amount of our 2019 Notes during the nine months ended September 30, 2015 for $136.3 million plus transaction expenses of $0.1 million. The repurchase price was allocated between the fair value of the liability component and the fair value of the equity component of the convertible security. The portion of the repurchase price attributable to the equity component totaled $17.7 million and was recognized as a reduction of additional paid-in capital during the nine months ended September 30, 2015. The remaining repurchase price was attributable to the liability component. The difference between this amount and the net carrying amount of the liability and debt issuance costs was reflected as a loss on extinguishment of debt in our condensed consolidated statement of operations. For the nine months ended September 30, 2015, the loss on extinguishment of debt totaled $5.9 million, consisting principally of the write-off of unamortized debt discount. There were no repurchases of our outstanding Convertible Notes during the three months ended September 30, 2015.

As of September 30, 2015 and December 31, 2014, we had approximately $1.6 million and $2.3 million, respectively, of deferred financing costs from our Convertible Senior Notes, net of amortization, which is included in other assets on our condensed consolidated balance sheets.

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Conditions for Conversion

Prior to April 15, 2017 for the 2017 Notes, September 1, 2017 for the 2018 Notes and July 15, 2018 for the 2019 Notes, the Convertible Notes will be convertible only upon satisfaction of one or more of the following conditions: (1) the closing market price of the Company's common stock is at least 110% for the 2017 Notes or 130% for the 2018 Notes and 2019 Notes of the conversion price of the respective Convertible Notes for at least 20 out of 30 trading days prior to the end of the preceding fiscal quarter, (2) the trading price of the Convertible Notes is less than 98% of the product of (i) the conversion rate and (ii) the closing price of the Company's common stock during any five consecutive trading day period, (3) the Company issues certain equity instruments at less than the 10-day average closing market price of its common stock or the per-share value of certain distributions exceeds the market price of the Company's common stock by more than 10% or (4) other specified corporate events (significant consolidation, sale, merger, share exchange, fundamental change, etc.) occur.

On or after April 15, 2017 for the 2017 Notes, September 1, 2017 for the 2018 Notes and July 15, 2018 for the 2019 Notes, holders may convert each of their notes at the applicable conversion rate at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date.

11. Loan Securitization/Sale Activities

As described below, we regularly sell loans and notes under various strategies. We evaluate such sales as to whether they meet the criteria for treatment as a sale—legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transfer of control.

Within the Investing and Servicing Segment, we originate commercial mortgage loans with the intent to sell these mortgage loans to VIEs for the purposes of securitization. These VIEs then issue CMBS that are collateralized in part by these assets, as well as other assets transferred to the VIE. In certain instances, we retain a subordinated interest in the VIE and serve as special servicer for the VIE. The following summarizes the fair value and par value of loans sold from our conduit platform, as well as the amount of sale proceeds used in part to repay the outstanding balance of the repurchase agreements associated with these loans for the three and nine months ended September 30, 2015 and 2014 (amounts in thousands):

	For the Three Months Ended September 30,	For the Nine Months Ended September 30,

	2015	2014	2015	2014
Fair value of loans sold	$ 410,227	$ 498,789	$ 1,443,871	$ 1,165,583
Par value of loans sold	398,654	482,129	1,396,674	1,119,537
Repayment of repurchase agreements	299,301	361,569	1,043,757	839,626

Within the Lending Segment, we originate or acquire loans and then subsequently sell a portion, which can be in various forms including first mortgages, A-Notes, senior participations and mezzanine loans. Typically, our motivation for entering into these transactions is to effectively create leverage on the subordinated position that we will retain and hold for investment. In certain instances, we continue to service the loan following its sale. The following table summarizes our loans sold and loans transferred as secured borrowings by the Lending Segment net of expenses (amounts in thousands):

	Loan Transfers Accounted for as Sales		Loan Transfers Accounted for as Secured Borrowings	
	Face Amount	Proceeds	Face Amount	Proceeds
For the Three Months Ended September 30,				
2015	$ 225,264	$ 220,928	$ —	$ —
2014	142,896	138,958	—	—
For the Nine Months Ended September 30,				
2015	$ 606,725	$ 599,504	$ 38,925	$ 38,925
2014	347,755	341,472	—	—

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During the three months ended September 30, 2015 and 2014, the Lending Segment recognized gains on sales of loans of $2.7 million and $0.8 million, respectively, within gain on sale of investments in our condensed consolidated statements of operations. During the nine months ended September 30, 2015 and 2014, the Lending Segment recognized gains on sales of loans of $3.0 million and $1.3 million, respectively.

12. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. Refer to Note 12 to the consolidated financial statements included in our Form 10-K for further discussion of our risk management objectives and policies.

Designated Hedges

Our objective in using interest rate derivatives is to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

In connection with our repurchase agreements, we have entered into eight outstanding interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of September 30, 2015, the aggregate notional amount of our interest rate swaps designated as cash flow hedges of interest rate risk totaled $87.5 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.56% to 2.23% of the notional amount to the counterparty and receive floating rate LIBOR. Our interest rate swaps designated as cash flow hedges of interest rate risk have maturities ranging from November 2015 to May 2021.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2015 and 2014 we did not recognize any hedge ineffectiveness in earnings.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable-rate debt. Over the next twelve months, we estimate that an additional $0.4 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 68 months.

Non-designated Hedges

Derivatives not designated as hedges are derivatives that do not meet the criteria for hedge accounting under GAAP or which we have not elected to designate as hedges. We do not use these derivatives for speculative purposes but instead they are used to manage our exposure to foreign exchange rates, interest rate changes, and certain credit spreads. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in gain (loss) on derivative financial instruments in our condensed consolidated statements of operations.

We have entered into a series of forward contracts whereby we agreed to sell an amount of foreign currency for an agreed upon amount of USD at various dates through June 2020. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated investments.

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The following table summarizes our foreign exchange (“Fx”) forwards, interest rate swaps, interest rate caps and credit index instruments as of September 30, 2015 (notional amounts in thousands):

Type of Derivative	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx contracts – Sell Euros ("EUR") (1)	87	352,420	EUR	October 2015 – June 2020
Fx contracts – Sell Pounds Sterling ("GBP")	63	257,203	GBP	October 2015 – March 2018
Fx contracts – Sell Swedish Krona ("SEK")	2	19,197	SEK	December 2015
Fx contracts – Buy SEK	1	4,083	SEK	December 2015
Fx contracts – Sell Norwegian Krone ("NOK")	1	1,218	NOK	December 2015
Fx contracts – Sell Danish Krone ("DKK")	1	3,200	DKK	December 2015
Interest rate swaps – Paying fixed rates	73	513,218	USD	July 2016 – October 2025
Interest rate swaps – Receiving fixed rates	4	14,300	USD	October 2015 – September 2025
Interest rate caps	2	294,000	EUR	May 2020
Interest rate caps	2	17,835	USD	June 2018
Credit index instruments	11	40,000	USD	January 2047
Total	247			

(1) Includes 59 Fx contracts executed to hedge our Euro currency exposure created by our acquisition of the Ireland Portfolio. As of September 30, 2015, these contracts have an aggregate notional of €259.7 million and varying maturities through June 2020.

The table below presents the fair value of our derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014 (amounts in thousands):

	Fair Value of Derivatives in an Asset Position(1) As of		Fair Value of Derivatives in a Liability Position(2) As of	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Derivatives designated as hedging instruments:				
Interest rate swaps	$ 6	$ 138	$ 451	$ 235
Total derivatives designated as hedging instruments	6	138	451	235
Derivatives not designated as hedging instruments:				

Interest rate swaps and caps	2,981	1,128	13,508	5,216
Foreign exchange contracts	31,657	24,388	942	15
Credit index instruments	1,663	974	—	10
Total derivatives not designated as hedging instruments	36,301	26,490	14,450	5,241
Total derivatives	$ 36,307	$ 26,628	$ 14,901	$ 5,476

(1) Classified as derivative assets in our condensed consolidated balance sheets.
(2) Classified as derivative liabilities in our condensed consolidated balance sheets.

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The tables below present the effect of our derivative financial instruments on the condensed consolidated statements of operations and of comprehensive income for the three and nine months ended September 30, 2015 and 2014 (amounts in thousands):

Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in OCI (effective portion)	Gain (Loss) Reclassified from AOCI into Income (effective portion)	Gain (Loss) Recognized in Income (ineffective portion)	Location of Gain (Loss) Recognized in Income
For the Three Months Ended September 30,				
2015	$ (395)	$ (187)	$ —	Interest expense
2014	$ 186	$ (344)	$ —	Interest expense
For the Nine Months Ended September 30,				
2015	$ (933)	$ (585)	$ —	Interest expense
2014	$ (522)	$ (1,081)	$ —	Interest expense

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income for the Three Months Ended September 30, 2015	2014	Amount of Gain (Loss) Recognized in Income for the Nine Months Ended September 30, 2015	2014
Interest rate swaps and caps	Gain on derivative financial instruments	$ (17,242)	$ 1,054	$ (22,206)	$ (5,639)
Foreign exchange contracts	Gain on derivative financial instruments	18,957	28,123	29,129	18,293
Credit index instruments	Gain on derivative financial instruments	515	98	400	(1,035)
		$ 2,230	$ 29,275	$ 7,323	$ 11,619

13. Offsetting Assets and Liabilities

The following tables present the potential effects of netting arrangements on our financial position for financial assets and liabilities within the scope of ASC 210-20, Balance Sheet—Offsetting, which for us are derivative assets and liabilities as well as repurchase agreement liabilities (amounts in thousands):

	(i) Gross Amounts Recognized	(ii) Gross Amounts Offset in the Statement of Financial Position	(iii) = (i) - (ii) Net Amounts Presented in the Statement of Financial Position	(iv) Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	(iv) Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Received / Pledged	(v) = (iii) - (iv) Net Amount
As of September 30, 2015						
Derivative assets	$ 36,307	$ —	$ 36,307	$ 1,475	$ —	$ 34,832
Derivative liabilities	$ 14,901	$ —	$ 14,901	$ 1,475	$ 13,426	$ —
Repurchase agreements	2,663,678	—	2,663,678	2,663,678	—	—
	$ 2,678,579	$ —	$ 2,678,579	$ 2,665,153	$ 13,426	$ —
As of December 31, 2014						
Derivative assets	$ 26,628	$ —	$ 26,628	$ 2,016	$ —	$ 24,612
Derivative liabilities	$ 5,476	$ —	$ 5,476	$ 2,016	$ 3,460	$ —
Repurchase agreements	2,270,985	—	2,270,985	2,270,985	—	—
	$ 2,276,461	$ —	$ 2,276,461	$ 2,273,001	$ 3,460	$ —

14. Variable Interest Entities

Investment Securities

As discussed in Note 2, we evaluate all of our investments and other interests in entities for consolidation, including our investments in CMBS and our retained interests in securitization transactions we initiated, all of which are generally considered to be variable interests in VIEs.

The VIEs consolidated in accordance with ASC 810 are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The assets and other instruments held by these securitization entities are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the securitization entities do not have any recourse to the general credit of any other consolidated entities, nor to us as the primary beneficiary. The VIE liabilities initially represent investment securities on our balance sheet (pre-consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles as special servicer of the bonds issued by the consolidated VIEs or as collateral administrator of the consolidated VIEs are also eliminated. Finally, an allocable portion of the identified servicing intangible associated with the eliminated fee streams is eliminated in consolidation.

VIEs in which we are the Primary Beneficiary

The inclusion of the assets and liabilities of VIEs in which we are deemed the primary beneficiary has no economic effect on us. Our exposure to the obligations of VIEs is generally limited to our investment in these entities. We are not obligated to provide, nor have we provided, any financial support for any of these consolidated structures.

VIEs in which we are not the Primary Beneficiary

In certain instances, we hold a variable interest in a VIE in the form of CMBS, but either (i) we are not appointed, or do not serve as, special servicer or (ii) an unrelated third party has the rights to unilaterally remove us as special servicer. In these instances, we do not have the power to direct activities that most significantly impact the VIE’s economic performance. In other cases, the variable interest we hold does not obligate us to absorb losses or provide us with the right to receive benefits from the VIE which could potentially be significant. For these structures, we are not deemed to be the primary beneficiary of the VIE, and we do not consolidate these VIEs.

As of September 30, 2015, one of our CDO structures was in default, which pursuant to the underlying indentures, changes the rights of the variable interest holders. Upon default of a CDO, the trustee or senior note holders are allowed to exercise certain rights, including liquidation of the collateral, which at that time, is the activity which would most significantly impact the CDO's economic performance. Further, when the CDO is in default, the collateral administrator no longer has the option to purchase securities from the CDO. In cases where the CDO is in default and we do not have the ability to exercise rights which would most significantly impact the CDO's economic performance, we do not consolidate the VIE. As of September 30, 2015, this CDO structure was not consolidated. During the three months ended March 31, 2014, one of our CDOs, which was previously in default as of December 31, 2013, ceased to be in default. This event triggered the initial consolidation of the CDO and its underlying assets during the three months ended March 31, 2014.

As noted above, we are not obligated to provide, nor have we provided, any financial support for any of our securitization VIEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our investment in the entity. As of September 30, 2015, our maximum risk of loss related to VIEs in which we were not the primary beneficiary was $222.4 million on a fair value basis.

As of September 30, 2015, the securitization VIEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances of $40.5 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

15. Related-Party Transactions

Management Agreement

We are party to a management agreement (the "Management Agreement") with our Manager. Under the Management Agreement, our Manager, subject to the oversight of our board of directors, is required to manage our day to day activities, for which our Manager receives a base management fee and is eligible for an incentive fee and stock awards. Our Manager's personnel perform certain due diligence, legal, management and other services that outside professionals or consultants would otherwise perform. As such, in accordance with the terms of our Management Agreement, our Manager is paid or reimbursed for the documented costs of performing such tasks, provided that such costs and reimbursements are in amounts no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis. Refer to Note 15 to the consolidated financial statements included in our Form 10-K for further discussion of this agreement.

Base Management Fee. For the three months ended September 30, 2015 and 2014, we recognized base management fees of $15.2 million and $13.8 million, respectively, within management fees in our condensed consolidated statements of operations. For the nine months ended September 30, 2015 and 2014, we recognized base management fees of $44.0 million and $40.7 million, respectively. As of September 30, 2015 and December 31, 2014, there were $15.2 million and $13.9 million, respectively, of unpaid base management fees within related-party payable in our condensed consolidated balance sheets.

Incentive Fee. For the three months ended September 30, 2015 and 2014, we recognized incentive fees of $5.3 million and $4.3 million, respectively, within management fees in our condensed consolidated statements of operations. For the nine months ended September 30, 2015 and 2014, we recognized incentive fees of $16.1 million and $15.5 million, respectively. As of September 30, 2015 and December 31, 2014, $5.4 million and $18.9 million, respectively, of unpaid incentive fees were included within related-party payable in our condensed consolidated balance sheets.

Expense Reimbursement. For both the three months ended September 30, 2015 and 2014, we recognized expense reimbursements for executive compensation and other reimbursable expenses of $1.7 million within general and administrative expenses in our condensed consolidated statements of operations. For the nine months ended September 30, 2015 and 2014, we recognized expense reimbursements for executive compensation and other reimbursable expenses of $4.6 million and $5.7 million, respectively. As of September 30, 2015 and December 31, 2014, approximately $2.1 million and $3.4 million, respectively, of unpaid reimbursable executive compensation and other expenses were included within related-party payable in our condensed consolidated balance sheets.

Manager Equity Plan

In May 2015, we granted 675,000 RSUs to our Manager under the Starwood Property Trust, Inc. Manager Equity Plan ("Manager Equity Plan"). In January 2014, we granted 2,489,281 RSUs to our Manager under the Manager Equity Plan. In connection with these grants and prior similar grants, we recognized share-based compensation expense of $7.1 million and $6.3 million within management fees in our condensed consolidated statements of operations for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, we recognized $21.4 million and $19.8 million, respectively, related to these awards. Refer to Note 16 herein for further discussion of these grants.

Investments in Loans and Securities

In March 2015, we purchased a subordinate single-borrower CMBS from a third party for $58.6 million which is secured by 85 U.S. hotel properties. The borrower is an affiliate of Starwood Distressed Opportunity Fund IX ("Fund IX"), an affiliate of our Manager.

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In March 2015, we sold our entire interest, consisting of a $35 million participation, in a subordinate loan (the "Mammoth Loan") at par to Mammoth Mezz Holdings, LLC, an affiliate of our Manager. We purchased the Mammoth Loan in April 2011 from an independent third party and a syndicate of financial institutions and other entities acting as subordinate lenders to Mammoth Mountain Ski Area, LLC ("Mammoth"). Mammoth is a single purpose, bankruptcy remote entity that is owned and controlled by Starwood Global Opportunity Fund VII A, L.P., Starwood Global Opportunity Fund VII B, L.P., Starwood U.S. Opportunity Fund VII D, L.P. and Starwood U.S. Opportunity Fund VII D 2, L.P. (collectively, the "Sponsors"). Each of the Sponsors is indirectly wholly owned by Starwood Capital Group Global I, LLC and an affiliate of our Chief Executive Officer.

In January 2015, a junior mezzanine loan, which we co-originated with SEREF and an unaffiliated third party in 2012, was restructured to reduce both our and SEREF's participation interests and margin. We now hold a participation interest in the junior mezzanine loan of £18 million, which bears interest at three-month LIBOR plus 8.81%. Prior to the restructure, our participation interest was £30.0 million and carried an interest rate of three-month LIBOR plus 11.65%. The junior mezzanine loan is secured primarily by the ownership interest in entities that own a portfolio of three luxury hotels located in London, England.

Other Related-Party Arrangements

In connection with the LNR acquisition, we were required to cash collateralize certain obligations of LNR, including letters of credit and performance obligations. Fund IX funded $6.2 million of this obligation, but the account was within our name and was thus reflected within our restricted cash balance. As of December 31, 2014, we recognized a corresponding payable to Fund IX of $4.4 million within related-party payable in our condensed consolidated balance sheet. Our obligation was released in September 2015.

Our Investing and Servicing Segment acquires properties from CMBS trusts, some of which are consolidated as VIEs on our balance sheet. Acquisitions from consolidated VIEs are reflected as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows. During the three and nine months ended September 30, 2015, we acquired in aggregate $32.5 million and $65.9 million, respectively, of properties from both consolidated and unconsolidated CMBS trusts. Refer to Note 6 for further discussion of these acquisitions.

During the three and nine months ended September 30, 2015, we provided due diligence services to an affiliate of Starwood Global Opportunity Fund X, an affiliate of our Manager, in which we received fees of $0.1 million and $0.4 million, respectively.

In the normal course of business, the Investing and Servicing Segment's conduit lending platform provides loans to consolidated subsidiaries of the Company which are subsequently securitized and sold to third parties. The loan, debt and applicable interest income and expense are eliminated in consolidation until such time as the loan is sold. During the three months ended September 30, 2015, our conduit lending platform originated a $10.4 million intercompany loan which was eliminated in consolidation as of September 30, 2015.

Refer to Note 15 to the consolidated financial statements included in our Form 10-K for further discussion of related-party agreements.

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16. Stockholders' Equity

During the nine months ended September 30, 2015, our board of directors declared the following dividends:

Declare Date	Record Date	Ex-Dividend Date	Payment Date	Amount	Frequency
8/4/15	9/30/15	9/28/15	10/15/15	$ 0.48	Quarterly
5/5/15	6/30/15	6/26/15	7/15/15	$ 0.48	Quarterly
2/25/15	3/31/15	3/27/15	4/15/15	$ 0.48	Quarterly

On April 20, 2015, we issued 12.0 million shares of common stock for gross proceeds of $283.6 million. In connection with the offering, the underwriters had a 30-day option to purchase an additional 1.8 million shares of common stock, which they exercised in full, resulting in additional gross proceeds of $42.5 million.

During the nine months ended September 30, 2015, there were no shares issued under our At-The-Market Equity Offering Sales Agreement (the "ATM Agreement"). During the nine months ended September 30, 2015, shares issued under the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the "DRIP Plan") were not material.

In September 2014, our board of directors authorized and announced the repurchase of up to $250 million of our outstanding common stock over a period of one year. In December 2014, our board of directors amended the repurchase program to include the repurchase of our outstanding Convertible Notes. In June 2015, our board of directors amended the repurchase program to increase the authorized purchase amount to $450 million and provide for a one-year extension through June 2016. There were no repurchases of our outstanding Convertible Notes during the three months ended September 30, 2015. During the nine months ended September 30, 2015, we repurchased $118.6 million aggregate principal amount of our 2019 Notes for $136.3 million (refer to Note 10). Also during the three and nine months ended September 30, 2015 we repurchased 1,393,223 shares and 1,793,223 shares of common stock for $29.1 million and $37.9 million, respectively, under the repurchase program. As of September 30, 2015, we have $262.6 million of remaining capacity to repurchase common stock or Convertible Notes under the repurchase program.

Equity Incentive Plans

The Company currently maintains the Manager Equity Plan, the Starwood Property Trust, Inc. Equity Plan (the "Equity Plan"), and the Starwood Property Trust, Inc. Non-Executive Director Stock Plan ("Non-Executive Director Stock Plan"). Refer to Note 16 to the consolidated financial statements included in our Form 10-K for further information regarding these plans.

The table below summarizes our share awards granted under the Manager Equity Plan that were not fully vested as of September 30, 2015 (dollar amounts in thousands):

Grant Date	Type	Amount Granted	Grant Date Fair Value	Vesting Period
May 2015	RSU	675,000	$ 16,511	3 years
January 2014 (1)	RSU	489,281	14,776	3 years
January 2014	RSU	2,000,000	55,420	3 years
October 2012	RSU	875,000	19,854	3 years

(1) As part of the spin-off of our SFR segment, all holders of the Company's common stock and vested restricted common stock received one SWAY common share for every five shares of the Company's common stock. At the time of the spin-off, the Manager held certain unvested RSUs that were not entitled to SWAY shares. Under the legal documentation governing the outstanding RSUs, the Manager was entitled to receive additional RSUs in an amount equal to the number of such outstanding RSUs times the amount received in the spin-off by a holder of a share of the Company's common stock (i.e., the price per share of a SWAY common share divided by five) divided by the fair market value of a share of the Company's common stock on the date of the spin-off. In order to prevent dilution of the rights of our equity plan participants resulting from this make-whole issuance, the Equity Plan and

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Manager Equity Plan provide for, and, on August 12, 2014, our board of directors authorized, an increase of 489,281 shares to the maximum number of shares available for issuance under the Equity Plan and Manager Equity Plan.

During the three and nine months ended September 30, 2015, we granted 30,608 and 533,267 RSAs, respectively, under the Equity Plan to a select group of eligible participants which includes our employees and employees of our Manager who perform services for us. The awards were granted based on the market price of the Company's common stock on the respective grant date and vest ratably over a three-year period. Expenses related to the vesting of these awards is reflected in general and administrative expenses in our condensed consolidated statements of operations.

As of September 30, 2015, there were 2.7 million shares available for future grants under the Manager Equity Plan, the Equity Plan and the Non-Executive Director Stock Plan.

Schedule of Non-Vested Shares and Share Equivalents

	Non-Executive	Weighted Average Grant Date