STARWOOD PROPERTY TRUST, INC.
Form 10-Q
November 09, 2018
Table of Contents

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, 2018

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) 422-7700

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of November 5, 2018 was 275,351,911.

Table of Contents

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, 2017, our Quarterly Report on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018 and this Quarterly Report on Form 10-Q, 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;

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

· our ability to integrate our recently completed acquisition of the project finance origination, underwriting and capital markets business of GE Capital Global Holdings, LLC into our business and to achieve the benefits that we anticipate from the acquisition;

· 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.

Table of Contents

TABLE OF CONTENTS

		Page
Part I	Financial Information	
Item 1.	Financial Statements	4
	Condensed Consolidated Balance Sheets	4
	Condensed Consolidated Statements of Operations	5
	Condensed Consolidated Statements of Comprehensive Income	6
	Condensed Consolidated Statements of Equity	7
	Condensed Consolidated Statements of Cash Flows	8
	Notes to Condensed Consolidated Financial Statements	10
	Note 1 Business and Organization	10
	Note 2 Summary of Significant Accounting Policies	11
	Note 3 Acquisitions and Divestitures	18
	Note 4 Loans	21
	Note 5 Investment Securities	27
	Note 6 Properties	31
	Note 7 Investment in Unconsolidated Entities	33
	Note 8 Goodwill and Intangibles	34
	Note 9 Secured Financing Agreements	36
	Note 10 Unsecured Senior Notes	39
	Note 11 Loan Securitization/Sale Activities	41
	Note 12 Derivatives and Hedging Activity	42
	Note 13 Offsetting Assets and Liabilities	44
	Note 14 Variable Interest Entities	45
	Note 15 Related-Party Transactions	47
	Note 16 Stockholders' Equity and Non-Controlling Interests	49
	Note 17 Earnings per Share	51
	Note 18 Accumulated Other Comprehensive Income	52
	Note 19 Fair Value	53
	Note 20 Income Taxes	57
	Note 21 Commitments and Contingencies	58
	Note 22 Segment Data	58
	Note 23 Subsequent Events	65
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	66
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	101
Item 4.	Controls and Procedures	104
Part II	Other Information	
Item 1.	Legal Proceedings	105
Item 1A.	Risk Factors	105
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	110
Item 3.	Defaults Upon Senior Securities	110
Item 4.	Mine Safety Disclosures	110
Item 5.	Other Information	110

Item 6. Exhibits 111

Table of Contents

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, 2018	As of December 31, 2017
Assets:		
Cash and cash equivalents	$ 265,757	$ 369,448
Restricted cash	124,264	48,825
Loans held-for-investment, net	8,500,674	6,562,495
Loans held-for-sale ($913,505 and $745,743 held at fair value)	1,326,837	745,743
Loans transferred as secured borrowings	74,281	74,403
Investment securities ($289,554 and $284,735 held at fair value)	763,450	718,203
Properties, net	2,888,737	2,647,481
Properties held-for-sale	52,302	—
Intangible assets ($21,768 and $30,759 held at fair value)	153,948	183,092
Investment in unconsolidated entities	168,788	185,503
Goodwill	256,425	140,437
Derivative assets	59,807	33,898
Accrued interest receivable	52,911	47,747
Other assets	198,688	138,140
Variable interest entity (“VIE”) assets, at fair value	48,034,610	51,045,874
Total Assets	$ 62,921,479	$ 62,941,289
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 214,902	$ 185,117
Related-party payable	25,286	42,369
Dividends payable	132,549	125,916
Derivative liabilities	35,386	36,200
Secured financing agreements, net	8,586,687	5,773,056
Unsecured senior notes, net	2,024,570	2,125,235
Secured borrowings on transferred loans, net	74,148	74,185
VIE liabilities, at fair value	46,945,674	50,000,010

Total Liabilities	58,039,202	58,362,088
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, 279,302,395 issued and 274,122,255 outstanding as of September 30, 2018 and 265,983,309 issued and 261,376,424 outstanding as of December 31, 2017	2,793	2,660
Additional paid-in capital	4,963,061	4,715,246
Treasury stock (5,180,140 shares and 4,606,885 shares)	(104,194)	(92,104)
Accumulated other comprehensive income	67,920	69,924
Accumulated deficit	(308,343)	(217,312)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,621,237	4,478,414
Non-controlling interests in consolidated subsidiaries	261,040	100,787
Total Equity	4,882,277	4,579,201
Total Liabilities and Equity	$ 62,921,479	$ 62,941,289

See notes to condensed consolidated financial statements.

Table of Contents

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,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Interest income from loans	$ 154,501	$ 138,599	$ 443,825	$ 371,094
Interest income from investment securities	11,508	12,451	37,567	40,045
Servicing fees	27,824	14,842	71,206	47,572
Rental income	91,132	60,153	261,133	176,161
Other revenues	754	722	2,131	2,184
Total revenues	285,719	226,767	815,862	637,056
Costs and expenses:				
Management fees	26,519	30,980	84,655	79,997
Interest expense	102,658	76,431	281,433	213,608
General and administrative	31,203	32,892	98,873	95,841
Acquisition and investment pursuit costs	6,527	1,024	8,465	2,232
Costs of rental operations	30,191	23,799	92,781	67,701
Depreciation and amortization	34,293	22,871	103,187	67,131
Loan loss allowance, net	929	(171)	27,726	(3,170)
Other expense	76	376	677	1,276
Total costs and expenses	232,396	188,202	697,797	524,616
Income before other income (loss), income taxes and non-controlling interests	53,323	38,565	118,065	112,440
Other income (loss):				
Change in net assets related to consolidated VIEs	33,289	56,177	129,888	203,108
Change in fair value of servicing rights	(974)	(4,867)	(8,991)	(21,301)
Change in fair value of investment securities, net	301	(397)	7,854	(4,061)
Change in fair value of mortgage loans held-for-sale, net	3,940	19,485	26,573	45,484
Earnings (loss) from unconsolidated entities	2,625	(4,689)	6,633	27,763
Gain on sale of investments and other assets, net	1,462	11,877	25,559	17,004
Gain (loss) on derivative financial instruments, net	11,735	(24,224)	27,498	(66,159)
Foreign currency (loss) gain, net	(4,078)	10,660	(3,793)	28,434
Total other-than-temporary impairment (“OTTI”)	—	(66)	—	(175)
Noncredit portion of OTTI recognized in other comprehensive income	—	66	—	66
Net impairment losses recognized in earnings	—	—	—	(109)
Loss on extinguishment of debt	(2,540)	—	(2,726)	(5,916)

Other (loss) income, net	(1,421)	28	(815)	484
Total other income	44,339	64,050	207,680	224,731
Income before income taxes	97,662	102,615	325,745	337,171
Income tax provision	(8,281)	(9,816)	(14,480)	(18,285)
Net income	89,381	92,799	311,265	318,886
Net income attributable to non-controlling interests	(4,845)	(4,371)	(17,567)	(10,720)
Net income attributable to Starwood Property Trust, Inc.	$ 84,536	$ 88,428	$ 293,698	$ 308,166
Earnings per share data attributable to Starwood Property Trust, Inc.:				
Basic	$ 0.31	$ 0.34	$ 1.11	$ 1.18
Diluted	$ 0.31	$ 0.33	$ 1.09	$ 1.17
Dividends declared per common share	$ 0.48	$ 0.48	1.44	$ 1.44

See notes to condensed consolidated financial statements.

Table of Contents

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,	
	2018	2017	2018	2017
Net income	$ 89,381	$ 92,799	$ 311,265	$ 318,886
Other comprehensive (loss) income (net change by component):				
Cash flow hedges	(6)	(22)	(24)	56
Available-for-sale securities	737	3,975	2,923	10,728
Foreign currency translation	(945)	5,337	(4,903)	18,349
Other comprehensive (loss) income	(214)	9,290	(2,004)	29,133
Comprehensive income	89,167	102,089	309,261	348,019
Less: Comprehensive income attributable to non-controlling interests	(4,845)	(4,371)	(17,567)	(10,720)
Comprehensive income attributable to Starwood Property Trust, Inc.	$ 84,322	$ 97,718	$ 291,694	$ 337,299

See notes to condensed consolidated financial statements.

Table of Contents

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	Treasury Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Starwood Property Trust, Inc. Stockholders' Equity	Non-Controlling Interests
265,983,309	$ 2,660	$ 4,715,246	4,606,885	$ (92,104)	$ (217,312)	$ 69,924	$ 4,478,414	$ 100,787
21,512	—	459	—	—	—	—	459	—
—	—	(22)	—	—	—	—	(22)	—
11,181,546	112	215,265	—	—	—	—	215,377	—
—	—	—	573,255	(12,090)	—	—	(12,090)	—
1,215,137	12	16,442	—	—	—	—	16,454	—
900,891	9	18,633	—	—	—	—	18,642	—
—	—	—	—	—	293,698	—	293,698	17,567
—	—	—	—	—	(384,729)	—	(384,729)	—
—	—	—	—	—	—	(2,004)	(2,004)	—
—	—	—	—	—	—	—	—	(291)
—	—	—	—	—	—	—	—	387,481

—	—	(2,962)	—	—	—	—	(2,962)	(244,185
—	—	—	—	—	—	—	—	(319)
279,302,395	$ 2,793	$ 4,963,061	5,180,140	$ (104,194)	$ (308,343)	$ 67,920	$ 4,621,237	$ 261,040
263,893,806	$ 2,639	$ 4,691,180	4,606,885	$ (92,104)	$ (115,579)	$ 36,138	$ 4,522,274	$ 37,799
24,217	—	541	—	—	—	—	541	—
—	—	(12)	—	—	—	—	(12)	—
—	—	3,755	—	—	—	—	3,755	—
—	—	(18,105)	—	—			(18,105)	
849,045	9	13,281	—	—	—	—	13,290	—
639,555	6	14,404	—	—	—	—	14,410	—
—	—	—	—	—	308,166	—	308,166	10,720
—	—	—	—	—	(376,660)	—	(376,660)	—
—	—	—	—	—	—	29,133	29,133	—
—	—	—	—	—	—	—	—	1,837
—	—	—	—	—	—	—	—	105
—	—	—	—	—	—	—	—	(7,519)

265,406,623	$ 2,654	$ 4,705,044	4,606,885	$ (92,104)	$ (184,073)	$ 65,271	$ 4,496,792	$ 42,942

See notes to condensed consolidated financial statements.

Table of Contents

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$ 311,265	$ 318,886
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of deferred financing costs, premiums and discounts on secured financing agreements and secured borrowings on transferred loans	18,156	14,131
Amortization of discounts and deferred financing costs on senior notes	9,674	17,514
Accretion of net discount on investment securities	(12,013)	(11,669)
Accretion of net deferred loan fees and discounts	(28,954)	(27,014)
Share-based compensation	16,454	13,290
Share-based component of incentive fees	18,642	14,410
Change in fair value of investment securities	(7,854)	4,061
Change in fair value of consolidated VIEs	(12,173)	(59,160)
Change in fair value of servicing rights	8,991	21,301
Change in fair value of loans held-for-sale	(26,573)	(45,484)
Change in fair value of derivatives	(24,339)	62,463
Foreign currency gain (loss), net	3,734	(28,211)
Gain on sale of investments and other assets	(25,559)	(17,004)
Impairment charges on properties and related intangibles	1,864	1,099
Loan loss allowance, net	27,726	(3,170)
Depreciation and amortization	101,760	64,937
Earnings from unconsolidated entities	(6,633)	(27,763)
Distributions of earnings from unconsolidated entities	5,001	4,716
Loss on extinguishment of debt	2,726	5,916
Origination and purchase of loans held-for-sale, net of principal collections	(1,386,609)	(1,487,813)
Proceeds from sale of loans held-for-sale	1,243,109	987,828
Changes in operating assets and liabilities:		
Related-party payable, net	(17,083)	(7,829)
Accrued and capitalized interest receivable, less purchased interest	(37,314)	(63,032)
Other assets	(32,348)	(12,198)
Accounts payable, accrued expenses and other liabilities	22,997	37,367
Net cash provided by (used in) operating activities	174,647	(222,428)
Cash Flows from Investing Activities:		
Origination and purchase of loans held-for-investment	(3,495,080)	(2,195,258)
Proceeds from principal collections on loans	2,225,575	1,670,159

Proceeds from loans sold	742,496	37,079
Purchase of investment securities	(312,339)	(69,231)
Proceeds from sales of investment securities	6,016	11,134
Proceeds from principal collections on investment securities	355,757	209,903
Infrastructure lending business combination	(2,011,428)	—
Real estate business combinations, net of cash and restricted cash acquired	—	(18,194)
Proceeds from sales and insurance recoveries on properties	105,548	44,219
Purchases and additions to properties and other assets	(44,741)	(564,755)
Investment in unconsolidated entities	(3,100)	(20,544)
Distribution of capital from unconsolidated entities	21,448	3,858
Payments for purchase or termination of derivatives	(18,210)	(41,208)
Proceeds from termination of derivatives	15,521	23,686
Return of investment basis in purchased derivative asset	—	151
Net cash used in investing activities	(2,412,537)	(909,001)

See notes to condensed consolidated financial statements.

Table of Contents

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30,	
	2018	2017
Cash Flows from Financing Activities:		
Proceeds from borrowings	$ 6,845,138	$ 4,090,163
Principal repayments on and repurchases of borrowings	(3,880,450)	(2,724,179)
Payment of deferred financing costs	(63,219)	(17,038)
Proceeds from common stock issuances	459	541
Payment of equity offering costs	(22)	(647)
Payment of dividends	(378,096)	(376,061)
Contributions from non-controlling interests	9,066	105
Distributions to non-controlling interests	(247,147)	(7,519)
Purchase of treasury stock	(12,090)	—
Issuance of debt of consolidated VIEs	26,849	11,657
Repayment of debt of consolidated VIEs	(166,387)	(92,383)
Distributions of cash from consolidated VIEs	76,294	62,797
Net cash provided by financing activities	2,210,395	947,436
Net decrease in cash, cash equivalents and restricted cash	(27,495)	(183,993)
Cash, cash equivalents and restricted cash, beginning of period	418,273	650,755
Effect of exchange rate changes on cash	(757)	1,674
Cash, cash equivalents and restricted cash, end of period	$ 390,021	$ 468,436
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 241,173	$ 177,604
Income taxes paid	8,223	7,722
Supplemental disclosure of non-cash investing and financing activities:		
Dividends declared, but not yet paid	$ 132,408	$ 125,638
Consolidation of VIEs (VIE asset/liability additions)	3,438,933	2,092,516
Deconsolidation of VIEs (VIE asset/liability reductions)	1,395,168	2,244,267
Net assets acquired from consolidated VIEs	27,737	19,652
Fair value of assets acquired, net of cash and restricted cash	2,020,037	18,956
Fair value of liabilities assumed	8,609	762
Contribution of Woodstar II Portfolio net assets from non-controlling interests	378,415	—
Settlement of 2019 Convertible Notes in shares	245,172	—

See notes to condensed consolidated financial statements.

9

Table of Contents

Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of September 30, 2018

(Unaudited)

1. Business and Organization

Starwood Property Trust, Inc. (“STWD” and, 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. 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, infrastructure debt investments, 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 four reportable business segments as of September 30, 2018:

· Real estate commercial and residential lending (the “Commercial and Residential Lending Segment,” formerly known as “Real estate lending”)—engages primarily in originating, acquiring, financing and managing commercial and residential 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.

· Infrastructure lending (the “Infrastructure Lending Segment”)—engages primarily in originating, acquiring, financing and managing infrastructure debt investments.

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

· Real estate investing and servicing (the “Investing and Servicing Segment”)—includes (i) a servicing business in the U.S. that manages and works 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.

Our segments exclude the consolidation of securitization variable interest entities (“VIEs”).

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.

Table of Contents

2. Summary of Significant Accounting Policies

Balance Sheet Presentation of Securitization Variable Interest Entities

We operate investment businesses that acquire unrated, investment grade and non-investment grade rated CMBS and RMBS. 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 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 we often serve as the special servicer or servicing administrator of the trusts in which we invest, or we have the ability to remove and replace the special servicer without cause, 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 our business segments 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, 2017 (our “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, 2018 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, (iii) became significant since December 31, 2017 due to a corporate action or increase in the significance of the underlying business activity or (iv) changed upon adoption of an Accounting Standards Update (“ASU”) issued by the Financial Accounting Standards Board (“FASB”).

Variable Interest Entities

In addition to the securitization VIEs, certain other entities in which we hold interests are considered VIEs as the limited partners of these entities do not collectively possess (i) the right to remove the general partner without cause or (ii) the right to participate in significant decisions made by the partnership.

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 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: (i) identifying the activities that most significantly impact the VIE's economic performance; and (ii) 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. The right to remove the decision maker in a VIE must be exercisable without cause for the decision maker to not be deemed the party that has 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 unrated and non-investment grade rated securities issued by securitization trusts. In certain cases, we may contract to provide special servicing activities for these 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 without cause, 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 securitization 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: (i) 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 (ii) 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 securitization 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 securitization VIEs as individual line items on our condensed consolidated balance sheets. The liabilities of our consolidated securitization VIEs consist solely of

Table of Contents

obligations to the bondholders of the related trusts, and are thus presented as a single line item entitled “VIE liabilities.” The assets of our consolidated securitization 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 securitization 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 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 trust, the securitization VIE assets as a whole can only be used to settle the obligations of the consolidated VIE. The assets of our securitization 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 trust.

REO assets generally represent a very small percentage of the overall asset pool of a trust. In new issue trusts there are no REO assets. We estimate that REO assets constitute approximately 2% of our consolidated securitization VIE assets, with the remaining 98% representing loans. However, it is important to note that the fair value of our securitization VIE assets is determined by reference to our securitization VIE liabilities as permitted under 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 securitization 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 securitization VIEs are presented in the aggregate.

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 securitization VIEs, loans held-for-sale originated or acquired for future securitization, purchased CMBS issued by VIEs we could consolidate in the future and certain investments in marketable equity securities which, effective January 1, 2018, are now required to be carried at fair value through earnings. 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 were made due to the expected short-term holding period of these instruments.

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 securitization VIEs at fair value pursuant to our election of the fair value option. The securitization 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 securitization VIEs, we maximize the use of observable inputs over unobservable inputs. Refer to Note 19 for further discussion regarding our fair value measurements.

Business Combinations

Under 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. As goodwill is calculated as a residual, all goodwill of the acquired business, not just the acquirer’s share, is recognized under this “full goodwill” approach. During the measurement period, a period which shall not exceed one year, we prospectively adjust the provisional amounts recognized to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized.

Loans Held-for-Investment

Loans that are held for investment are carried at cost, net of unamortized acquisition premiums or discounts, loan fees, and origination costs as applicable, unless the loans are deemed impaired. We evaluate each loan classified as held-for-investment for impairment at least quarterly. In connection with this evaluation, 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.

Loan Impairment

We evaluate each loan classified as held-for-investment for impairment at least quarterly. Impairment occurs 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 considered to be impaired, we record an allowance through the provision for loan losses to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan’s contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral.

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 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, 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.

There may be circumstances where we modify a loan by granting the borrower a concession that we might not otherwise consider when a borrower is experiencing financial difficulty or is expected to experience financial difficulty in the foreseeable future. Such concessionary modifications are classified as troubled debt restructurings ("TDRs") unless the modification solely results in a delay in payment that is insignificant. Loans classified as TDRs are considered impaired loans for reporting and measurement purposes.

Table of Contents

Loans Held For Sale

Our loans that we intend to sell or liquidate in the short term are classified as held for sale and are carried at the lower of amortized cost or fair value, unless we have elected to apply the fair value option at origination or purchase.

Properties Held-For-Sale

Properties and any associated intangible assets are presented within properties held-for-sale on our condensed consolidated balance sheet when the sale of the property is considered probable, at which time we cease depreciation and amortization of the property and the associated intangibles. Held-for-sale properties are reported at the lower of their carrying value or fair value less costs to sell.

Cost Method Equity Investments

On January 1, 2018, ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities, became effective prospectively for public companies with a calendar fiscal year. This ASU requires entities to carry all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures, and limited liability companies, at fair value with changes in fair value recognized within net income. This ASU does not apply to equity method investments, investments in Federal Home Loan Bank ("FHLB") stock, investments that result in consolidation of the investee or investments in certain investment companies. For investments in equity securities without a readily determinable fair value, an entity is permitted to elect a practicability exception, under which the investment will be measured at cost, less impairment, plus or minus observable price changes from orderly transactions of an identical or similar investment of the same issuer.

Additionally, this ASU eliminated the requirement to assess whether an impairment of an equity investment is other than temporary. The impairment model for equity investments subject to this election is now a single-step model whereby an entity performs a qualitative assessment to identify impairment. If the qualitative assessment indicates that an impairment exists, the entity would estimate the fair value of the investment and recognize in net income an impairment loss equal to the difference between the fair value and the carrying amount of the equity investment.

Our equity investments within the scope of this ASU are limited to our cost method equity investments discussed in Note 7, with the exception of our FHLB stock which is outside the scope of this ASU, and to our marketable equity security discussed in Note 5 for which we had previously elected the fair value option. Our cost method equity investments within the scope of this ASU do not have readily determinable fair values. Therefore, we have elected the practicability exception whereby we measure these investments at cost, less impairment, plus or minus observable price changes from orderly transactions of identical or similar investments of the same issuer. Refer to Note 7 for further discussion.

Revenue Recognition

On January 1, 2018, new accounting rules regarding revenue recognition became effective for public companies with a calendar fiscal year. None of our significant revenue sources – interest income from loans and investment securities, loan servicing fees, and rental income – are within the scope of the new revenue recognition guidance. The revenue recognition guidance also included revisions to existing accounting rules regarding the determination of whether a company is acting as a principal or agent in an arrangement and accounting for sales of nonfinancial assets where the seller has continuing involvement. These additional revisions also did not materially impact the Company.

Interest income on performing loans and financial instruments is accrued based on the outstanding principal amount and contractual terms of the instrument. For loans where we do not elect the fair value option, origination fees and direct loan origination costs are also recognized in interest income over the loan term as a yield adjustment using the effective interest method. When we elect the fair value option, origination fees and direct loan costs are recorded directly in income and are not deferred. Discounts or premiums associated with the purchase of non-performing loans and investment securities are amortized or accreted into interest income as a yield adjustment on the effective interest method, based on expected cash flows through the expected maturity date of the investment. On at least a quarterly basis, we review and, if appropriate, make adjustments to our cash flow projections.

We cease accruing interest on non-performing loans at the earlier of (i) the loan becoming significantly past due or (ii) management concluding that a full recovery of all interest and principal is doubtful. Interest income on non-accrual loans in which management expects a full recovery of the loan's outstanding principal balance is only recognized when received in cash. If a full recovery of principal is doubtful, the cost recovery method is applied whereby any cash received is applied to the outstanding principal balance of the loan. A non-accrual loan is returned to accrual status at such time as the loan becomes contractually current and management believes all future principal and interest will be received according to the contractual loan terms.

For loans acquired with deteriorated credit quality, interest income is only recognized to the extent that our estimate of undiscounted expected principal and interest exceeds our investment in the loan. Accretable yield, if any, will be recognized as interest income on a level-yield basis over the life of the loan.

Share-Based Payments

Effective July 1, 2018, we early adopted ASU 2018-07, Compensation – Stock Compensation (Topic 718) –Improvements to Nonemployee Share-Based Payment Accounting, which aligns the accounting for nonemployee share-based compensation with the existing accounting model for employee share based compensation. Prior to our adoption of ASU 2018-07, nonemployee share awards were recognized as an expense on a straight-line basis over the vesting period of the award with the fair value of the award remeasured at each vesting date. After our adoption of ASU 2018-07, nonemployee share awards continue to be recorded as expense on a straight-line basis over their vesting period, however, the fair value of the award will only be determined on the grant date and not remeasured at subsequent vesting dates, consistent with the accounting for employee share awards. For non-employee awards granted prior to our July 1, 2018 adoption date, the awards will be remeasured at fair value as of our July 1, 2018 adoption date with no subsequent remeasurement.

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, (iii) the conversion options associated with our outstanding convertible senior notes (see Notes 10 and 17), and (iv) non-controlling interests that are redeemable with our common stock (see Note 16). Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

Nearly all of the Company's unvested RSUs and RSAs contain rights to receive non-forfeitable dividends and thus are participating securities. In addition, the non-controlling interests that are redeemable with our common stock are considered participating securities because they earn a preferred return indexed to the dividend rate on our common stock (see Note 16). 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, 2018 and 2017, 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.

Table of Contents

Recent Accounting Developments

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes a right-of-use model for lessee accounting which results in the recognition of most leased assets and lease liabilities on the balance sheet of the lessee. Lessor accounting was not significantly changed by this ASU. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2018 by applying a modified retrospective approach. Early application is permitted. On July 30, 2018, the FASB issued ASU 2018-11, Leases (Topic 842) – Targeted Improvements, which provides an optional transition method of applying the new leases standard at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. It also provides lessors with a practical expedient to not separate non-lease revenue components from the associated lease component if certain conditions are met. Our assessment of the effect of these ASUs on the Company remains ongoing; however, we currently do not expect the application of these ASUs to have a material impact as the Company primarily acts as a lessor.

On June 16, 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments, which mandates use of an “expected loss” credit model for estimating future credit losses of certain financial instruments instead of the “incurred loss” credit model that current GAAP requires. The “expected loss” model requires the consideration of possible credit losses over the life of an instrument as opposed to only estimating credit losses upon the occurrence of a discrete loss event in accordance with the current “incurred loss” methodology. This ASU is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019. Early application is permitted though no earlier than the first interim or annual period beginning after December 15, 2018. Though we have not completed our assessment of this ASU, we expect the ASU to result in our recognition of higher levels of allowances for loan losses. Our assessment of the estimated amount of such increases remains in process.

On January 26, 2017, the FASB issued ASU 2017-04, Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment, which simplifies the method applied for measuring impairment in cases where goodwill is impaired. This ASU specifies that goodwill impairment will be measured as the excess of the reporting unit’s carrying value (inclusive of goodwill) over its fair value, eliminating the requirement that all assets and liabilities of the reporting unit be remeasured individually in connection with measurement of goodwill impairment. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2019 and is applied prospectively. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On August 28, 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities, which amends and simplifies existing guidance regarding the designation and measurement of designated hedging relationships. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2018. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On August 28, 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) – Disclosure Framework, which adds new disclosure requirements and modifies or eliminates existing disclosure requirements of ASC 820. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2019. Early application is permitted. We do not expect the application of this ASU to materially impact the Company, as it only affects fair value disclosures.

On October 31, 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810) – Targeted Improvements to Related Party Guidance for Variable Interest Entities, which requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety for determining whether a decision-making fee is a variable interest. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2019. Early application is permitted. We are in the process of assessing the impact this ASU will have on the Company.

Table of Contents

3. Acquisitions and Divestitures

Infrastructure Lending Segment

On September 19, 2018, we acquired the project finance origination, underwriting and capital markets business of GE Capital Global Holdings, LLC (“GE Capital”) for approximately $2.0 billion (the “Infrastructure Lending Segment”). The business includes $1.9 billion of funded senior secured project finance loans and investment securities and $466.3 million of unfunded lending commitments (the “Infrastructure Lending Portfolio”) which are secured primarily by natural gas and renewable power facilities. The Infrastructure Lending Portfolio is 97% floating rate with 74% of the collateral located in the U.S., 11% in Mexico, 6% in the United Kingdom and the remaining collateral dispersed through the Middle East, Ireland, Australia, Canada and Spain. The loans are predominantly denominated in USD and backed by long term power purchase agreements primarily with investment grade counterparties. The Company hired a team of professionals from GE Capital’s project finance division in connection with the acquisition to manage and expand the Infrastructure Lending Portfolio. We utilized $1.5 billion in new financing in order to fund the acquisition (as set forth in Note 9).

Goodwill of $116.0 million was recognized in connection with the Infrastructure Lending Segment acquisition as the consideration paid exceeded the fair value of the net assets acquired. From the acquisition date through September 30, 2018, we have recognized revenues of $3.2 million and a net loss of $5.5 million related to the portfolio. Such net loss primarily reflects interest income from loans and investment securities of $3.2 million, offset by interest expense of $2.3 million and one-time acquisition-related costs including a $3.0 million commitment fee related to an unused bridge financing facility and legal and due diligence costs of $2.8 million.

Subsequent to September 30, 2018, on October 15, 2018, we acquired two additional senior secured project finance loans from GE Capital for $147.1 million, utilizing $120.4 million of available financing to fund the acquisition.

Purchase Price Allocation

We applied the provisions of ASC 805, Business Combinations, in accounting for our acquisition of the Infrastructure Lending Segment. In doing so, we have recorded all identifiable assets acquired and liabilities assumed at fair value as of the acquisition date. These amounts are provisional and 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.

The following table summarizes the preliminary estimate of identified assets acquired and liabilities assumed at the acquisition date (amounts in thousands):

Assets acquired:	Infrastructure Lending Segment
Loans held-for-investment	$ 1,506,544
Loans held-for-sale	319,879
Investment securities	65,060
Accrued interest receivable	12,566
Total identifiable assets acquired	1,904,049
Liabilities assumed:	
Accounts payable, accrued expenses and other liabilities	8,327
Derivative liabilities	282
Total liabilities assumed	8,609
Net assets acquired	$ 1,895,440

Table of Contents

Goodwill represents the excess of the purchase price over the fair value of the underlying assets acquired and liabilities assumed. This determination of goodwill is as follows (amounts in thousands):

	Infrastructure Lending Segment
Purchase price	$ 2,011,428
Preliminary estimate of the fair value of net assets acquired	1,895,440
Goodwill	$ 115,988

Pro Forma Operating Data (Unaudited)

The unaudited pro forma revenues and net income attributable to the Company for the three and nine months ended September 30, 2018 and 2017, assuming the Infrastructure Lending Segment was acquired on January 1, 2017, are as follows (amounts in thousands, except per share amounts):

For the Three Months Ended	For the Nine Months Ended