Resource Capital Corp.
Form 10-K
March 02, 2015

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

FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________
Commission File Number: 1-32733
RESOURCE CAPITAL CORP.
(Exact name of registrant as specified in its charter)

Maryland	20-2287134
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

712 5th Avenue, 12th Floor, New York, New York 10019
(Address of principal executive offices) (Zip Code)

(212) 506-3870
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value	New York Stock Exchange
8.50% Series A Cumulative Redeemable Preferred Stock	New York Stock Exchange
8.25% Series B Cumulative Redeemable Preferred Stock	New York Stock Exchange
8.625% Series C Cumulative Redeemable Preferred Stock	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No R
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No R
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 R 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ		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 R No

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the closing price of such stock on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2014) was approximately $700,019,472.

The number of outstanding shares of the registrant’s common stock on February 26, 2015 was 134,079,374 shares.

(Back to Index)

RESOURCE CAPITAL CORP. AND SUBSIDIARIES
INDEX TO ANNUAL REPORT
ON FORM 10-K

(Back to Index)

(Back to Index)

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate”, “believe”, “could”, “estimate”, “expects”, “intend”, “may”, “plan”, “potential”, “project”, “should”, “will” and “would” or the terms or other comparable terminology.

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

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

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

(Back to Index)

(Back to Index)

PART I

ITEM I . BUSINESS

General

We are a diversified real estate finance company that is organized and conducts its operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes under Subchapter M of the Internal Revenue Code of 1986, as amended. Our investment strategy focuses on commercial real estate, commercial real estate-related assets and, to a lesser extent, commercial finance assets.

Our investments target the following asset classes:

Asset Class	Principal Investments
Commercial real estate-related assets	First mortgage loans, which we refer to as whole loans; First priority interests in first mortgage loans, which we refer to as A notes; Subordinated interests in first mortgage loans, which we refer to as B notes; Mezzanine debt related to commercial real estate that is senior to the borrower's equity position but subordinated to other third-party debt; Commercial mortgage-backed securities, which we refer to as CMBS; and Commercial real estate, or CRE, primarily multifamily properties.
Residential real estate-related assets	Residential mortgage loans and mortgage-backed securities; and Residential mortgage-backed securities, which we refer to as RMBS, which comprise our available for sale portfolio.
Commercial finance assets	Senior secured corporate loans, which we refer to as bank loans; Asset-backed securities, which we refer to as ABS, backed by senior secured corporate loans; Debt tranches of collateralized debt obligations and collateralized loan obligations, which we refer to as CDOs and CLOs, respectively, and sometimes, collectively, as CDOs; Structured note investments, which comprise our trading securities portfolio; Middle-market secured corporate loans and preferred equity investments; and Preferred equity investment in a commercial leasing enterprise which originates and holds small- and middle-ticket commercial direct financing leases and notes.

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

We are externally managed by Resource Capital Manager, Inc., or the Manager, an indirect wholly-owned subsidiary of Resource America, Inc. (NASDAQ: REXI), or Resource America, a specialized asset management company that uses industry specific expertise to evaluate, originate, service and manage investment opportunities through its commercial real estate, financial fund management and commercial finance operating segments. As of September 30, 2014, Resource America managed approximately $19.4 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

(Back to Index)

4

(Back to Index)

Having gained traction in 2013, the economic environment in the United States continued to show moderate growth during 2014, which resulted in several positive operating developments for us. Our ability to access the capital markets continued to improve, as evidenced by our Series C preferred stock offering in June 2014, resulting in net proceeds at issuance to us of $116.2 million, and by the success of our dividend reinvestment and share purchase program, or DRIP, which raised $30.3 million in 2014. In addition, we supplemented our common equity issuances with issuances of preferred stock through an at-the-market program which resulted in proceeds of $56.6 million in 2014 This brought our total net proceeds raised through the capital markets to $203.1 million in 2014, after underwriting discounts and commissions and other offering expenses. The improved economic environment and increased capital markets access allowed us to substantially increase our funded originations of commercial real estate whole loans from $344.3 million in 2013 to $689.4 million in 2014.

We also continued to experience improved credit markets. We closed an additional real estate securitization for $353.9 million in July 2014. We were able to use the proceeds from this CLO to completely pay down a financing facility and thereby generate additional borrowing capacity. Further, we were able to expand the borrowing base of our CRE financing facility with Wells Fargo Bank from $250.0 to $400.0 million and to extend the maturity date to August 27, 2016 with two one-year extension options available to us. We were also successful in extending the maturity date on our CMBS financing facility to January 31, 2016.

Conversely, we continue to see a decline in our commercial finance assets, specifically, our bank loan portfolio, as we liquidated one of our CLOs in 2014 and expected to liquidate another CLO in 2015. The remaining legacy CLO in our portfolio has finished its reinvestment period and, as a result, as it receives proceeds from the collateral assets it will pay down the associated debt. This trend has caused our net interest income from bank loans to decline substantially in 2014 and we expect and the declining trend will continue into 2015. We expect to mitigate this trend by continuing to grow our real estate lending platform and, to a lesser extent, by deploying capital into our middle-market lending business, which originates loans that are similar in nature to bank loans. Based on these recent and expected investment and credit market trends and events, we expect to be able to invest a significant portion of our unrestricted and available restricted cash balances and, as a result, grow our net interest income and other revenues modestly in 2015.

Our Business Strategy

The core components of our business strategy are:

Investment in real estate and commercial finance assets. We expect to seek portfolio growth primarily through investments in CRE whole loans and, to a lesser extent, B notes, mezzanine debt and CMBS rated below AAA by Standard & Poor's, or S&P. We also expect to invest in commercial finance assets, principally directly-originated middle-market loans, and to a lesser extent, bank loan securitizations and, in other ABS, structured note investments and debt tranches of CDOs and CLOs, subject to the availability of investment funds and financing. Our middle market lending platform provides credit facilities to private middle market companies. Debt solutions offered include first lien, second lien, and unitranche and mezzanine debt. Our equity at December 31, 2014 was invested 67% in CRE assets, 29% in commercial finance assets and 4% in other investments.

Managing our investment portfolio. As of December 31, 2014, we managed $2.4 billion of assets, including $1.2 billion of assets which were financed and held in variable interest entities, or VIEs. The core of our management process is credit analysis which our Manager and Resource America uses to actively monitor our existing investments and as a basis for evaluating new investments. Senior management of our Manager and Resource America has extensive experience in underwriting the credit risk associated with our targeted asset classes and conducts detailed due diligence on all credit-sensitive investments, including the use of proprietary credit stratifications and collateral stress analysis. After we make an investment, the Manager and Resource America engage in active monitoring of our investments for early detection of troubled and deteriorating assets. If a default occurs, we will use our senior management team's asset management experience in seeking to mitigate the severity of any losses, and to optimize the recovery from assets collateralizing the investment.

Managing our interest rate and liquidity risk. We generally seek to manage interest rate and liquidity risk so as to reduce the effects of interest rate changes on us. In our long-term financing, we seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. Historically, we have used

CDO and CLO vehicles structured for us by our Manager to achieve this goal, and as credit markets have reopened, we expect to increase our use of these vehicles in the future. We engage in a number of business activities that are vulnerable to interest and liquidity risk. Our hedging strategy is intended to take advantage of commonly available derivative instruments to reduce, to the extent possible, interest rate and cash flow risks. We use derivative instruments, such as interest rate swaps and interest rate caps in our effort to reduce this risk.

(Back to Index)

We manage our interest rate and liquidity risk on our short-term financing, principally repurchase agreements, by limiting the amount of our financial exposure under the facilities to either a stated investment amount or a fixed guaranty amount. At December 31, 2014 with respect to our existing Wells Fargo CMBS facility, we had $29.9 million of short-term debt, and $4.2 million of derivative instruments and pledged collateral of $36.6 million associated with this debt. Our equity at risk was $6.7 million, including net interest due on the financings. With respect to our Wells Fargo CRE facility, after paying down the facility with proceeds from our new CRE securitization, we had a balance of $181.4 million of short-term debt at year end 2014 and pledged collateral of $259.0 million associated with this debt. Our equity at risk was $77.6 million, including net interest due. As of December 31, 2014, we also had a balance of $62.2 million on short-term 30 day repurchase agreements with various counterparties to finance the purchase of CMBS with pledged collateral of $89.3 million associated with this debt and equity at risk of $27.1 million, including net interest as of December 31, 2014. These borrowings were made on a floating rate basis, which matched the underlying asset collateral on the same floating rate basis to mitigate interest rate risk.

Diversification of investments. We seek to manage our investment risk by maintaining a diversified portfolio of real estate-related and commercial finance assets. As funds become available for investment or reinvestment, we seek to maintain that diversification while allocating our capital to those sectors that we believe are the most economically attractive. The percentage of assets that we may invest in certain of our targeted asset classes is subject to the federal income tax requirements for REIT qualification and the requirements for exclusion from regulation under the Investment Company Act of 1940, which we refer to as the Investment Company Act.

Our Operating Policies

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

Financing policies. We have used leverage in order to increase potential returns to our stockholders and for financing our portfolio. We do not speculate on changes in interest rates. While we have identified our leverage targets for each of our targeted asset classes, our investment policies require no minimum or maximum leverage and our investment committee has the discretion, without the need for further approval by our board of directors, to increase the amount of leverage we incur above our targeted range for individual asset classes subject, however, to any leverage constraints that may be imposed by existing financing arrangements.

We have historically used borrowing and securitization strategies, substantially through CDOs, to accomplish our long-term match funding financing strategy. As a result of improving conditions in the credit markets during 2013 and 2014, we expect to increase leverage through new CDO and CLO securitizations, and the continued use of our two Wells Fargo facilities in 2015. We may also seek other credit arrangements to finance new investments where we believe we can achieve attractive risk-adjusted returns, subject to availability.

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

Credit and risk management policies. Our Manager focuses its attention on credit and risk assessment from the earliest stage of the investment selection process. In addition, the Manager screens and monitors all potential investments to determine their impact on maintaining our REIT qualification under federal income tax laws and our exclusion from investment company status under the Investment Company Act. Portfolio risks, including risks related to credit losses, interest rate volatility, liquidity and counterparty credit are generally managed on a portfolio-by-portfolio basis by each of Resource America's asset management divisions, although there is often interaction and cooperation between divisions in this process.

(Back to Index)

General

The table below summarizes the amortized cost and net carrying amount of RSO's investment portfolio as of December 31, 2014, classified by interest rate and by asset type (in thousands, except percentages):

	Amortized cost	Net Carrying Amount	Percent of portfolio		Weighted average coupon
Loans held for investment:					
Commercial real estate loans (1):					
Whole loans	$1,263,592	$1,259,834	52.26	%	5.33%
B notes	16,072	16,017	0.66	%	8.68%
Mezzanine loans	67,366	67,136	2.78	%	7.44%
Bank loans	330,648	330,078	13.69	%	3.70%
Middle-market loans	250,113	250,113	10.38	%	8.35%
Residential mortgage loans	2,802	2,802	0.12	%	4.57%
Loans receivable-related party	1,277	1,277	0.05	%	4.62%
	1,931,870	1,927,257	79.94	%	
Loans held for sale (2):					
Bank loans	282	282	0.01	%	3.76%
Residential mortgage loans	111,454	111,454	4.62	%	4.04%
	111,736	111,736	4.63	%	
Investments in available-for-sale securities:					
CMBS-private placement	168,669	170,405	7.07	%	4.78%
CMBS-linked transactions	14,900	15,367	0.64	%	5.44%
RMBS	29,814	30,751	1.28	%	3.17%
ABS	55,617	72,157	2.99	%	N/A (3)
Corporate bonds	2,415	2,407	0.10	%	4.88%
	271,415	291,087	12.08	%	
Investment securities, trading:					
Structured notes	23,319	20,786	0.86	%	N/A (3)
RMBS	1,896	—	—	%	N/A (3)
	25,215	20,786	0.86	%	
Other (non-interest bearing):					
Property available for sale	180	180	0.01	%	N/A
Investment in unconsolidated entities	59,827	59,827	2.48	%	N/A
	60,007	60,007	2.49	%	
Total Investment Portfolio	$2,400,243	$2,410,873	100.00	%	

(1) Net carrying amount includes an allowance for loan losses of $4.0 million at December 31, 2014, allocated as follows: whole loans $3.8 million, B notes $55,000 and mezzanine loans $231,000.

(2) Loans held for sale are carried at the lower of cost or fair market value. Amortized cost is equal to fair value.

(3) There is no stated rate associated with these securities.

Commercial Real Estate-Related Investments

Whole loans. We originate predominantly first mortgage loans, or whole loans, directly to borrowers. The direct origination of whole loans enables us to better control the structure of the loans and to maintain direct lending relationships with the borrowers. We may create senior tranches of a loan we originate, consisting of an A note (described below), B notes (described below), and mezzanine loans or other participations, which we may hold or sell to third parties. We do not obtain ratings on these investments. With respect to our portfolio at December 31, 2014, our whole loan investments have loan to value, or LTV, ratios that typically do not exceed 80%. Typically whole loan mortgages will have terms of three years to five years, and are generally structured with an original term of up to three years, with one-year extensions that bring the loan to a maximum term of five years. We expect to hold our whole loans to their maturity.

(Back to Index)

(Back to Index)

Senior interests in whole loans (A notes). We invest in senior interests in whole mortgage loans, referred to as A notes, either directly originated or purchased from third parties. We do not obtain ratings on these investments. With respect to our portfolio at December 31, 2014, at the date of investment, our A note investments had LTV ratios not exceeding 70%. We expect to hold our A note investments to their maturity.

Subordinate interests in whole loans (B notes). To a lesser extent we invest in subordinate interests in whole loans, referred to as B notes, which we either directly originate or purchase from third parties. B notes are loans secured by a first mortgage but are subordinated to an A note. The subordination of a B note is generally evidenced by an intercreditor or participation agreement between the holders of the A note and the B note. In some instances, the B note lender may require a security interest in the stock or partnership interests of the borrower as part of the transaction. B note lenders have the same obligations, collateral and borrower as the A note lender, but typically are subordinated in recovery upon a default to the A note lender. B notes share certain credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A note. We do not obtain ratings on these investments. With respect to our portfolio at December 31, 2014, at origination, our B note investments had LTV ratios between 55% and 80%. Typical B note investments will have terms of three years to five years, and are generally structured with an original term of up to three years, with one-year extensions that bring the loan to a maximum term of five years. We expect to hold our B note investments to their maturity.

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

Mezzanine financing. To a lesser extent we invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. Our mezzanine loans may also have prepayment lockouts, penalties, minimum profit hurdles and other mechanisms to protect and enhance returns in the event of premature repayment. With respect to our portfolio at December 31, 2014, at origination, our mezzanine investments had LTV ratios between 65% and 90%. We expect the stated maturity of our mezzanine financings to range from three to five years. Mezzanine loans typically have maturities that match the maturity of the related mortgage loans but may have shorter or longer terms. We expect to hold these investments to maturity.

(Back to Index)

The following charts describe the loan type, property type and the geographic breakdown of our CRE loan portfolio as of December 31, 2014 (based on par value):

(Back to Index)

(Back to Index)

As these charts demonstrate, our portfolio contains a diversified mix of property types with approximately 94% of the portfolio focusing on four types: multifamily – 44%; hotel - 19%; office - 16% and retail – 15%.

Approximately 28% of our portfolio is in California, which we split into Southern (21%) and Northern (7%) regions. Within the Southern California region, we have 94% of our portfolio in whole loans with 74% in four property types: hotel–31%, retail–27%, multifamily–8% and office–8%. Within the Northern California region, we have 100% of our portfolio in whole loans with 90% in two property types: office–53% and retail–37%. We also hold 27% of our portfolio in Texas. Within the state of Texas, we have 98% of our portfolio in whole loans with 88% in two property types: multifamily-79% and office-9%. As noted in these statistics, this portfolio is made up primarily of whole loans where we are able to better control the structure of the loan and maintain a direct lending relationship with the borrower. We view the investment and credit strategy as being adequately diversified across property type and loan type across the Southern and Northern California regions and Texas.

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

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

Commercial Real Estate Investments

In 2011, we began to invest directly in the ownership of commercial real estate, restructuring two real estate loans to take control of properties where we believed we could protect capital and ultimately generate capital appreciation. We later acquired two multi-family real estate assets, one through a joint venture and the other directly wholly-owned by us, as well as a hotel property. We sold the wholly-owned multi-family property at a substantial gain of $16.6 million in 2013, and divested the remaining commercial real estate assets during 2014 at a gain of $6.1 million. As of December 31, 2014, we were not directly invested in the ownership of any commercial real estate assets. We primarily used a related party, Resource Real Estate, a subsidiary of Resource America, to manage these assets on our behalf.

Other Real Estate Investments

We may invest in joint ventures and other interests that finance the acquisition of distressed commercial properties and mortgage loans on distressed commercial properties. These investments did not constitute a material portion of our assets during 2013 and we divested these interests during 2014. We do not hold any such investments as of December 31, 2014.

Structured Note Investments and Residential Real Estate-Related Investments, or RMBS

We invest in structured notes and RMBS as part of our trading portfolio. Structured note investments are investments in structured finance vehicles that are typically among the most junior debt, or are equity securities, issued by the vehicle. The majority of our structured notes have not been rated by any nationally recognized rating agencies. These notes and equity securities typically receive quarterly interest payments or distributions only after the more senior debt securities issued by the vehicle have received all amounts contractually then owned to them. We also invest in RMBS, which are securities that are secured or evidenced by interests in a pool of residential mortgage loans. These securities may be issued by government-sponsored agencies or other entities and may or may not be rated investment grade by rating agencies. We expect that our RMBS will include loan pools with home equity loans (loans that are secured by subordinate liens), residential B or C loans (loans where the borrower's FICO score, a measure used to rate the financial strength of the borrower, is low, generally below 625), “Alt-A” loans (where the borrower's FICO score is between 675 and 725) and “high LTV” loans (loans where the LTV is 95% or greater).

Residential Mortgage Origination

Primary Capital Mortgage, LLC, or PCM, (formerly known as Primary Capital Advisors, LLC) is a residential mortgage lender and servicer offering home loans in 35 states as of December 31, 2014 through retail, wholesale and correspondent channels. PCM primarily originates agency mortgage loans for the purpose of selling these loans to the appropriate federal agency. PCM originated $545.1 million of agency mortgage loans in 2014. In 2014, PCM developed a non-agency mortgage product, specifically to originate and service prime jumbo mortgage loans. During 2014, PCM originated $82.2 million of prime jumbo mortgage loans financed primarily by a dedicated credit facility. During 2015, PCM expects to continue to expand geographically and increase its non-agency mortgage production. Founded in 1994, PCM has funded more than $13.0 billion in residential mortgages since inception and, as of December 31, 2014, PCM serviced over $1.0 billion of residential mortgage loans.

(Back to Index)

(Back to Index)

Commercial Finance Investments

Subject to limitations imposed by REIT qualification standards and requirements for exclusion from regulation under the Investment Company Act, we may invest in the following commercial finance assets:

Bank loans. Historically, we have acquired senior and subordinated, secured and unsecured loans made by banks or other financial entities. We may, in the future, make similar investments consistent with our business strategy. Bank loans may also include revolving credit facilities, under which the lender is obligated to advance funds to the borrower under the credit facility as requested by the borrower from time to time. Some of these loans may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the loan. These loans may include restrictive financial and operating covenants. The following chart describes the industry breakdown of our bank loans as of December 31, 2014 (based on par value):

Other is made up of the following industries (by percentage):

Printing and Publishing	1.9	%
Beverage, Food and Tobacco	1.8	%
Aerospace and Defense	1.8	%
Containers, Packaging and Glass	1.6	%
Oil and Gas	1.6	%
Mining, Steel, Iron and Non-Precious Metals	1.4	%
Insurance	1.3	%
Cargo Transport	0.9	%
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	0.8	%
Personal and Non Durable Consumer Products (Mfg. Only)	0.8	%
Home and Office Furnishings, Housewares, and Durable Consumer Products	0.7	%
Diversified/Conglomerate Manufacturing	0.5	%
Grocery	0.4	%
Ecological	0.2	%

(Back to Index)

(Back to Index)

Middle market loans. As a principal part of our business strategy, we make both senior and subordinated, secured and unsecured loans to middle market companies. either through directly originated transactions or purchases from third parties. Our middle market loan portfolio focuses on privately held companies in a broad variety of industries with an EBITDA between $5.0 million and $50.0 million and a target investment of $10.0 million to $40.0 million. Loans may also include revolving credit facilities, under which the lender is obligated to advance funds to the borrower under the credit facility as requested by the borrower from time to time. We expect that most of these loans will be secured by liens on the assets of, and, to a lesser extent, by mortgages on real properties of the borrowers. Certain loans in our middle market portfolio may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the loan. Typical middle market loans will have terms between three years and six years. These loans may include restrictive financial and operating covenants. In conjunction with some loans, we may also make minority equity investments. The following chart describes the industry breakdown of our middle market loans as of December 31, 2014 (based on par value):

(Back to Index)

Preferred equity. We have a preferred equity investment in a leasing company that invests in small- and middle-ticket full payout lease receivables. Although previously we had maintained a lease receivable portfolio, we transferred that portfolio to the leasing company in return for the preferred equity interest. We do not expect to invest in a directly-held leasing portfolio for the foreseeable future.

Trust preferred securities and other ABS. We have one investment (less than 0.1% of our total assets) in trust preferred securities. With certain exceptions relating to smaller banking institutions, the Dodd-Frank Act provided for a phase out of the use of trust preferred securities as primary regulatory capital for financial institutions which has resulted in a lack of new issuances. Accordingly, we do not expect to make trust preferred securities investments in the future.

Competition

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

Management Agreement

We have a management agreement with the Manager and Resource America under which the Manager provides the day-to-day management of our operations. The agreement has been amended several times over the years. The management agreement requires the Manager to manage our business affairs in conformity with the policies and investment guidelines established by our board of directors. The Manager's role as manager is under the supervision and direction of our board of directors. The Manager is responsible for the selection, purchase and sale of our portfolio investments, our financing activities, and providing us with investment advisory services. The Manager also provides us with a Chairman of the Board, a Chief Financial Officer, several accounting and tax professionals and an investor relations officer (on a shared basis). The Manager receives fees and is reimbursed for its expenses as follows:

- A monthly base management fee equal to 1/12th of the amount of our equity multiplied by 1.50%. Under the management agreement, "equity" is equal to the net proceeds from any issuance of shares of common stock less offering-related costs, plus or minus our retained earnings (excluding non-cash equity compensation incurred in current or prior periods) less any amounts we have paid for common stock repurchases. The calculation is adjusted for one-time events due to changes in accounting principles generally accepted in the United States, which we refer to as GAAP, as well as other non-cash charges, upon approval of our independent directors.
- Incentive compensation, calculated as follows: (i) 25% of the dollar amount by which (A) our adjusted operating earnings (before incentive compensation but after the base management fee) for such quarter per common share (based on the weighted average number of common shares outstanding for such quarter) exceeds (B) an amount equal to (1) the weighted average of the price per share of the common stock in our initial offering and the prices per share of the common stock in any of our subsequent offerings, in each case at the time of issuance thereof, multiplied by (2) the greater of (a) 2.00% and (b) 0.50% plus one-fourth of the Ten Year Treasury Rate for such quarter, multiplied by (ii) the weighted average number of shares of common stock outstanding during such quarter subject to adjustment to exclude events pursuant to changes in GAAP or the application of GAAP, as well as non-recurring or unusual transactions or events, after discussion between the Manager and the independent directors and approval by a majority of the independent directors in the case of non-recurring or unusual transactions or events.
- Reimbursement of out-of-pocket expenses and certain other costs incurred by the Manager that relate directly to us and our operations.
- Reimbursement of the Manager for the expense of the wages, salaries and benefits of our Chairman, our Chief Financial Officer, several accounting and tax professionals and 50% of the salary and benefits of the director of investor relations.

In November 2013, we amended the second amended and restated management agreement to allow an ancillary operating subsidiary to directly incur and pay all of its own operating costs and expenses, including compensation to employees and reimbursement of any compensation costs incurred by the Manager for the personnel principally devoted to such ancillary operating subsidiary.

Incentive compensation is paid quarterly to the Manager to the extent it is earned. Up to seventy-five percent (75%) of the incentive compensation will be paid in cash and at least twenty-five percent (25%) is paid in the form of an award of common stock. The Manager may elect to receive more than 25% of its incentive compensation in common stock.

All shares are fully vested upon issuance. However, the Manager may not sell such shares for one year after the incentive compensation becomes due and payable unless the management agreement is terminated. Shares payable as incentive compensation are valued as follows:

- if such shares are traded on a securities exchange, at the average of the closing prices of the shares on such exchange over the thirty day period ending three days prior to the issuance of such shares;

(Back to Index)

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

As amended, the management agreement has a current term ending on March 31, 2015. The agreement provides for automatic one year renewals on each March 31 thereafter until terminated. Our board of directors reviews the Manager's performance annually. The management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the management fees payable to the Manager are not fair, subject to the Manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees. Our board of directors must provide 180 days' prior notice of any such termination. If we terminate the management agreement, the Manager is entitled to a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by the Manager during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

We may also terminate the management agreement for cause with 30 days' prior written notice from our board of directors. No termination fee is payable with respect to a termination for cause. The management agreement defines cause as:

- the Manager's continued material breach of any provision of the management agreement following a period of 30 days after written notice thereof;
- the Manager's fraud, misappropriation of funds, or embezzlement against us;
- the Manager's gross negligence in the performance of its duties under the management agreement;
- the bankruptcy or insolvency of the Manager, or the filing of a voluntary bankruptcy petition by the Manager;
- the dissolution of the Manager; and
- a change of control (as defined in the management agreement) of the Manager if a majority of our independent directors determines, at any point during the 18 months following the change of control, that the change of control was detrimental to the ability of the Manager to perform its duties in substantially the same manner conducted before the change of control.

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

The management agreement will terminate at the Manager's option, without payment of the termination fee, if we become regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately before such event.

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

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

We believe that RCC Real Estate, Inc., the subsidiary that as of December 31, 2014, held all of our commercial real estate loan assets, is excluded from Investment Company Act regulation under Sections 3(c)(5)(C) and 3(c)(6), provisions designed for companies that do not issue redeemable securities and are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. To qualify for this exclusion, at least 55% of RCC Real Estate's assets must consist of mortgage loans and other assets that are considered the functional equivalent of mortgage loans for purposes of the Investment Company Act, and interests in real properties, which we refer to as “qualifying real estate assets.” Moreover, 80% of RCC Real Estate's assets must consist of qualifying real estate assets and other real estate-related assets. RCC Real Estate has not issued, and does not intend to issue, redeemable securities.

(Back to Index)

(Back to Index)

We treat our investments in whole mortgage loans, specific types of B notes and specific types of mezzanine loans as qualifying real estate assets for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the Securities and Exchange Commission, or SEC, or its staff. We believe that SEC staff guidance allows us to treat B notes as qualifying real estate assets where we have unilateral rights to instruct the servicer to foreclose upon a defaulted mortgage loan, replace the servicer in the event the servicer, in its discretion, elects not to foreclose on such a loan, and purchase the A note in the event of a default on the mortgage loan. We believe, based upon an analysis of existing SEC staff guidance, that we may treat mezzanine loans as qualifying real estate assets where (i) the borrower is a special purpose bankruptcy-remote entity whose sole purpose is to hold all of the ownership interests in another special purpose entity that owns commercial real property, (ii) both entities are organized as limited liability companies or limited partnerships, (iii) under their organizational documents and the loan documents, neither entity may engage in any other business, (iv) the ownership interests of either entity have no value apart from the underlying real property which is essentially the only asset held by the property-owning entity, (v) the value of the underlying property in excess of the amount of senior obligations is in excess of the amount of the mezzanine loan, (vi) the borrower pledges its entire interest in the property-owning entity to the lender which obtains a perfected security interest in the collateral, and (vii) the relative rights and priorities between the mezzanine lender and the senior lenders with respect to claims on the underlying property is set forth in an intercreditor agreement between the parties which gives the mezzanine lender certain cure and purchase rights in case there is a default on the senior loan. If the SEC staff provides future guidance that these investments are not qualifying real estate assets, we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate-related assets or miscellaneous assets, as appropriate. Historically, we have held “whole pool certificates” in mortgage loans, although, at December 31, 2014 and 2013, we had no whole pool certificates in our portfolios. Pursuant to existing SEC staff guidance, we consider whole pool certificates to be qualifying real estate assets. A whole pool certificate is a certificate that represents the entire beneficial interest in an underlying pool of mortgage loans. By contrast, a certificate that represents less than the entire beneficial interest in the underlying mortgage loans is not considered to be a qualifying real estate asset for purposes of the 55% test, but constitutes a real estate-related asset for purposes of the 80% test. We do not expect that investments in CDOs, ABS, bank loans, lease receivables, trust preferred securities and private equity will constitute qualifying real estate assets. Moreover, to the extent that these investments are not backed by mortgage loans or other interests in real estate, they will not constitute real estate-related assets. Instead, they will constitute miscellaneous assets, which can constitute no more than 20% of RCC Real Estate's assets.
To the extent RCC Real Estate holds its commercial real estate loan assets through wholly or majority-owned CDO subsidiaries, RCC Real Estate also intends to conduct its operations so that it will not come within the definition of an investment company set forth in Section 3(a)(1)(C) of the Investment Company Act because less than 40% of the value of its total assets (exclusive of government securities and cash items) on an unconsolidated basis will consist of “investment securities,” which we refer to as the 40% test. “Investment securities” exclude U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. Certain of the wholly-owned CDO subsidiaries of RCC Real Estate rely on Section 3(c)(5)(C) for their Investment Company Act exemption, with the result that RCC Real Estate's interests in the CDO subsidiaries do not constitute “investment securities” for the purpose of the 40% test.

Of our other subsidiaries, RCC Commercial, Inc., or RCC Commercial, RCC Commercial II, Inc., or RCC Commercial II, RCC Commercial III, Inc., or RCC Commercial III, Resource TRS, Inc., or Resource TRS, Resource TRS IV, Inc. , or Resource TRS IV, RCC Residential Portfolio TRS, Inc., or RCC Resi TRS and Long Term Care Conversion, Inc., or LTCC, do not qualify for the Section 3(c)(5)(C) exclusion. However, we believe they qualify for exclusion under either Section 3(c)(1) or 3(c)(7). As required by these exclusions, we will not allow any of these entities to make, or propose to make, a public offering of its securities. In addition, with respect to those subsidiaries for which we rely upon the Section 3(c)(1) exclusion, and as required thereby, we limit the number of holders of their securities to not more than 100 persons calculated in accordance with the attribution rules of Section 3(c)(1) and, with respect to those subsidiaries for which we rely on the Section 3(c)(7) exclusion, and as required thereby, we limit ownership of their securities to "qualified purchasers." If we form other subsidiaries, we must ensure that they qualify for an exemption or exclusion from regulation under the Investment Company Act. One other subsidiary, Resource TRS II, Inc. is an operating company which accordingly does not own investment securities, and Resource TRS V, Inc., or Resource TRS V, holds a deferred tax asset, which is not an investment security.

Moreover, we must ensure that Resource Capital Corp. itself qualifies for an exclusion from regulation under the Investment Company Act. We will do so by monitoring the value of our interests in our subsidiaries so that we can ensure that Resource Capital Corp. meets the 40% test. Our interest in RCC Real Estate does not constitute an "investment security" for purposes of the 40% test, but our interests in RCC Commercial, RCC Commercial II, RCC Commercial III, Resource TRS, and Resource TRS IV, RCC Resi TRS and LTCC do. Accordingly, we must monitor the value of our interest in these subsidiaries to ensure that the value of our interests in them never exceeds 40% of the value of our total assets.

(Back to Index)

(Back to Index)

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

Employees

We have no direct employees, except for those who work for PCM, our residential mortgage origination company acquired in 2013. Under our management agreement, the Manager provides us with all management and support personnel and services necessary for our day-to-day operations, except for PCM's operations. To provide its services, the Manager draws upon the expertise and experience of Resource America. In April 2012, Resource America and its affiliated entities including (with respect to managing our bank loans and related CLO portfolios) formed a joint venture, CVC Credit Partners, in which Resource America has retained a 33% partnership interest. We continue to rely on the expertise of employees of this venture to manage certain of our assets. As of December 31, 2014, Resource America had 737 full-time employees involved in asset management, including 82 asset management professionals and 655 support personnel. Under our management agreement, the Manager also must provide us with our Chairman, our Chief Financial Officer and several accounting and tax professionals, each of whom is exclusively dedicated to our operations, as well as a director of investor relations who is 50% dedicated to our operations. We bear the expense of the wages, salaries and benefits of our Chairman, our Chief Financial Officer and the accounting and tax professionals dedicated to us, and 50% of the salary and benefits of the director of investor relations.

Corporate Governance and Internet Address

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

Our internet address is www.resourcecapitalcorp.com. We make available, free of charge through a link on our site, all reports filed with the SEC as soon as reasonably practicable after such filing. Our site also contains our code of business conduct and ethics, corporate governance guidelines and the charters of the audit committee, nominating and governance committee and compensation committee of our board of directors. A complete list of our filings is available on the SEC's website at www.sec.gov. Any of our filings are also available at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The Public Reference Room may be contacted at telephone number (800) 732-0330 for further information.

(Back to Index)

(Back to Index)

ITEM IA. RISK FACTORS

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

Impact of Current Economic Conditions

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

We depend upon the availability of adequate debt and equity capital for growth in our operations. Although we have been able to raise both debt and equity capital during 2013 and 2014, if current economic conditions were to deteriorate, our ability to access debt or equity capital on acceptable terms, or at all, could be limited which could limit our profitability, our ability to make distributions and the market price of our common stock. In addition, as a REIT, we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and are therefore not able to retain significant amounts of our earnings for new investments. While we may, through our taxable REIT subsidiaries, or TRSs, retain earnings as new capital, we are subject to REIT qualification requirements which limit the value of TRS stock and securities relative to the other assets owned by a REIT.

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

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

Risks Related to Our Financing

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

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

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

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

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

(Back to Index)

(Back to Index)

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

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

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

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

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

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

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

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

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

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

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

(Back to Index)

(Back to Index)

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

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

Our equity holdings and, when we acquire debt interests in CDOs, our debt interests, if any, generally are subordinate in right of payment to the other classes of debt securities issued by the CDO entity. Accordingly, if overcollateralization tests are not met, distributions on the subordinated debt and equity we hold in these CDOs will cease, resulting in a substantial reduction in our cash flow. Other tests (based on delinquency levels, interest coverage or other criteria) may restrict our ability to receive cash distributions from assets collateralizing the securities issued by the CDO entity. Although at December 31, 2014, all of our CDOs met their performance tests, we cannot assure you that our CDOs will satisfy the performance tests in the future. For information concerning compliance by our CDOs with their over-collateralization tests, see “Management's Discussion and Analysis of Financial Condition and Results of Operation - Summary of CDO and CLO Performance Statistics.”

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

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

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

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

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

- An event of default under one short-term facility may constitute a default under other credit facilities we may have, potentially resulting in asset sales and losses to us, as well as increasing our financing costs or reducing the amount of investable funds available to us.
- We may be unable to acquire a sufficient amount of eligible assets to maximize the efficiency of a CDO or CLO issuance, which would require us to seek other forms of term financing or liquidate the assets. We may not be able to obtain term financing on acceptable terms, or at all, and liquidation of the assets may be at prices less than those we paid, resulting in losses to us.

- Using short-term financing to accumulate assets for a CDO or CLO issuance may require us to obtain new financing as the short-term financing matures. Residual financing may not be available on acceptable terms, or at all. Moreover, an increase in short-term interest rates at the time that we seek to enter into new borrowings would reduce the spread between the income on our assets and the cost of our borrowings. This would reduce returns on our assets, which would reduce earnings and, in turn, cash available for distribution to our stockholders.

(Back to Index)

(Back to Index)

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

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

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

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

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

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

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

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

(Back to Index)

(Back to Index)

consent of the hedging counterparty, and we may not be able to enter into an offsetting contract in order to cover our risk. A liquid secondary market may not exist for hedging instruments purchased or sold, and we may have to maintain a position until exercise or expiration, which could result in losses.

We may enter into hedging instruments that could expose us to unexpected losses in the future.

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

Approximately 95% of our hedging arrangements are with a single counterparty and, as a consequence, our hedging strategy may fail if that counterparty defaults in its obligations.

As of December 31, 2014, approximately 97% of our outstanding interest rate hedges, with a notional amount of $119.8 million, were with Credit Suisse International, or CS. Were CS to default in its obligations under these hedging arrangements, we would lose the hedge protection for which we had contracted which, depending upon market conditions, could result in significant losses to us. We cannot assure you that we could replace the defaulted hedges or that the terms of any replacement hedges we could obtain would be on similar terms, or as to the cost to us of obtaining replacement hedges.

Risks Related to Our Operations

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

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

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

We utilize AFFO as a measure of our operating performance and believe that it is useful to analysts, investors and other parties in the evaluations of REITS.   We utilize AFFO as a measure of our operating performance, and believe it is also useful to investors because it facilitates an understanding of our operating performance after adjustment for certain non-cash expenses, such as real estate depreciation, share-based compensation and non-cash impairment losses resulting from fair value adjustments on financial instruments, non-cash provisions for loan losses, non-economic income related to variable interest entities, or VIEs, accounting, equity-method investments gains and losses, straight-line rental effects, amortization of various deferred items and intangible assets, gains on debt extinguishment, REIT tax planning adjustments considered non-recurring by management and capital expenditures that are related to our real estate owned. Additionally, we believe that AFFO serves as a good measure of our operating performance because it facilitates evaluation of our company without the effects of selected items required in accordance with GAAP that may not necessarily be indicative of current operating performance and that may not accurately compare our operating performance between periods. Nonetheless, in certain instances, AFFO may not necessarily be reflective of our actual economic results.

Terrorist attacks and other acts of violence or war may affect the market for our common stock, the industry in which we conduct our operations and our profitability.

Terrorist attacks may harm our results of operations and your investment. These attacks and other acts of violence or war may directly impact our assets, properties or other assets underlying our loans or debt securities or the securities markets in general. Losses resulting from these types of events are generally uninsurable.

(Back to Index)

(Back to Index)

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. Adverse economic conditions could harm the value of some or all of the investments in our portfolio or the securities markets in general which could harm our operating results and revenues and may result in volatile values for assets in our portfolio.

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

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

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

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

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

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

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

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

Our residential mortgage origination subsidiary, PCM, could be adversely affected by weakness in residential housing markets and by the availability to it of warehouse credit facilities.

PCM primarily operates in the residential mortgage markets. A contraction of the U.S. housing market and overall economy, the tightening of credit restrictions, the availability of warehouse lines of credit and government regulations may negatively impact the future operations of PCM. PCM is a party to various warehouse lines of credit that expire at various times. PCM's operations depend upon the renewal of its warehouse lines of credit and continued access to permanent investors to continue to originate and sell residential mortgage loans at its current loan volume. Additionally, because of underwriting and other issues, permanent investors have been more aggressive pursuing indemnification or repurchase from loan originators, which may reduce PCM's ability to generate cash or operate profitably.

(Back to Index)

22

(Back to Index)

If our allowance for loan losses is not adequate to cover actual future loan and lease losses, our earnings may decline.
We maintain an allowance for loan losses to provide for loan defaults and non-performance by borrowers of their obligations. Our allowance for loan losses may not be adequate to cover actual future loan losses and future provisions for loan losses could materially reduce our income. We base our allowance for loan losses on prior experience, as well as an evaluation of risks in the current portfolio. However, losses may exceed our current estimates. The amount of future losses is susceptible to changes in economic, operating and other conditions that may be beyond our control, including changes in interest rates, changes in borrowers' creditworthiness and the value of collateral securing loans. Additionally, if we seek to expand our loan portfolios, we may need to make additional provisions for loan losses to ensure that the allowance remains at levels deemed appropriate by our management for the size and quality of our portfolios. While we believe that our allowance for loan and lease losses is adequate to cover our anticipated losses, we cannot assure you that it will not increase in the future. Any increase in our allowance for loan losses will reduce our income and, if sufficiently large, could cause us to incur loss.
Our due diligence may not reveal all of an investment's weaknesses.
Before investing in any asset, we will assess the strength and skills of the asset's management and operations, the value of the asset and, for debt investments, the value of any collateral securing the debt, the ability of the asset or underlying collateral to service the debt and other factors that we believe are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, we will rely on the resources available to us and, in some cases, an investigation by third parties. This process is particularly important and subjective with respect to investments in newly-organized entities because there may be little or no information publicly available about the entities or, with respect to debt securities, any underlying collateral. Our due diligence processes, however, may not uncover all facts that may be relevant to an investment decision.
Risks Related to Our Investments
Declines in the market values of our investments may reduce periodic reported results, credit availability and our ability to make distributions.
We classify a substantial portion of our assets for accounting purposes as "available-for-sale." As a result, reductions in the market values of those assets are directly charged or credited to accumulated other comprehensive loss and could reduce our stockholders' equity. A decline in these values will reduce the book value of our assets. Moreover, if the decline in value of an available-for-sale asset is other than temporary, we are required by GAAP to record the decline as an asset impairment which will reduce our earnings.
A decline in the market value of our assets may also adversely affect us in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan. If we were unable to post the additional collateral, we would have to repay some portion or all of the loan, which may require us to sell assets, which could potentially be under adverse market conditions. As a result, our earnings would be reduced or we could sustain losses, and cash available to make distributions could be reduced or eliminated.
Increases in interest rates and other factors could reduce the value of our investments, result in reduced earnings or losses and reduce our ability to pay distributions.
A significant risk associated with our investment in commercial real estate-related loans, CMBS and other debt instruments is the risk that either or both of long-term and short-term interest rates increase significantly. If long-term rates increase, the market value of our assets would decline. Even if assets underlying investments we may own in the future are guaranteed by one or more persons, including government or government-sponsored agencies, those guarantees do not protect against declines in market value of the related assets caused by interest rate changes. At the same time, with respect to assets that are not match-funded or that have been acquired with variable rate or short-term financing, an increase in short-term interest rates would increase our interest expense, reducing our net interest spread or possibly result in negative cash flow from those assets. This could result in reduced profitability and distributions or losses.

(Back to Index)

(Back to Index)

Investing in mezzanine debt and mezzanine or other subordinated tranches of CMBS, bank loans and other ABS involves greater risks of loss than senior secured debt investments.

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

Private equity investments involve a greater risk of loss than traditional debt financing.

On occasion, we have made private equity investments. Typically, these investments are subordinate to debt financing and are not secured. Should the issuer default on our investment, we would only be able to proceed against the entity that issued the private equity in accordance with the terms of the security, and not any property owned by the entity. In the event of bankruptcy or foreclosure, we would only be able to recoup our investment after any lenders to the entity are paid. As a result, we may not recover some or all of our investment, which could reduce our income or result in losses. Moreover, depending upon the existence of a market for the issuer's securities, the length of time we have held the investment and any rights we may have to require registration under the Securities Act, these investments may be highly illiquid so that we may not be able to sell these investments at times we would like to do so or at prices that reflect our cost or the value of the investment on our financial statements.

We record some of our portfolio investments at fair value as estimated by our management and, as a result, there will be uncertainty as to the value of these investments.

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

Our assets include bank loans and ABS which will carry higher risks of loss than our real estate-related portfolio.

Subject to maintaining our qualification as a REIT and exclusion from regulation under the Investment Company Act, we invest in bank loans and ABS. Our bank loan investments or our ABS investments, which are principally backed by small business and bank loans, may not be secured by mortgages or other liens on assets or may involve higher loan-to-value ratios than our real estate-related investments. Our bank loan investments, and our ABS backed by loans, involve loans with a par amount of $580.0 million at December 31, 2014 that have an interest-only payment schedule or a schedule that does not fully amortize principal over the term of the loan, which will make repayment of loans depend upon the borrowers' liquidity or ability to refinance the loans at maturity. Numerous factors affect a borrower's ability to repay or refinance loans at maturity, including national and local economic conditions, a downturn in a borrower's industry, loss of one or more principal customers and conditions in the credit markets. A deterioration in a company's financial condition or prospects may be accompanied by a deterioration in the collateral for the bank loan or any ABS backed by such company's loans.

We may face competition for suitable investments.

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

(Back to Index)

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

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

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

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

Risks Related to Our Manager

We depend on the Manager and Resource America to develop and operate our business and may not find suitable replacements if the management agreement terminates.

Apart from those employed by PCM, our newly-acquired residential mortgage subsidiary, we have no employees. Our officers, portfolio managers, administrative personnel and support personnel are employees of Resource America. We have no separate facilities and, except for PCM's operations, completely rely on the Manager and, because the Manager has no direct employees, Resource America, which has significant discretion as to the implementation of our operating policies and investment strategies. If our management agreement terminates, we may be unable to find a suitable replacement for the Manager. Moreover, we believe that our success depends to a significant extent upon the experience of the portfolio managers and officers of the Manager and Resource America who provide services to us, whose continued service is not guaranteed. The departure of any such persons could harm our investment performance.

We must pay the Manager the base management fee regardless of the performance of our portfolio.

The Manager is entitled to receive a monthly base management fee equal to 1/12 of our equity, as defined in the management agreement, times 1.50%, regardless of the performance of our portfolio. The Manager's entitlement to substantial non-performance based compensation might reduce its incentive to devote its time and effort to seeking profitable opportunities for our portfolio. This in turn could hurt our ability to make distributions to our stockholders.

The incentive fee we pay the Manager may induce it to make riskier investments.

In addition to its base management fee, the Manager is entitled to receive incentive compensation, payable quarterly, equal to 25% of the amount by which our adjusted operating earnings, as defined in the management agreement, exceed the weighted average prices for our common stock in all of our offerings multiplied by the greater of 2.00% or 0.50% plus one-fourth of the average 10-year U.S. Treasury rate for such quarter, multiplied by the weighted average number of common shares outstanding during the quarter. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead the Manager to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yields generally have higher risk of loss than investments with lower yields.

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

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

(Back to Index)

(Back to Index)

Our management agreement was not negotiated at arm's-length and, as a result, may not be as favorable to us as if it had been negotiated with a third-party.

At the time the management agreement was negotiated, our officers and two of our directors, Edward E. Cohen and Jonathan Z. Cohen, were also officers or directors of the Manager or Resource America. As a consequence, our management agreement was not the result of arm's-length negotiations and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third-party.

Termination of the management agreement by us without cause is difficult and could be costly.

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

The Manager and Resource America may engage in activities that compete with us.

Our management agreement does not prohibit the Manager or Resource America from investing in or managing entities that invest in asset classes that are the same as or similar to our targeted asset classes, except that they may not raise funds for, sponsor or advise any new publicly-traded REIT that invests primarily in mortgage-backed securities, or MBS, in the United States. The Manager's policies regarding resolution of conflicts of interest may be varied by it if economic, market, regulatory or other conditions make their application economically inefficient or otherwise impractical. Moreover, our officers, other than our Chief Financial Officer and several accounting professionals on his staff, and the officers, directors and employees of Resource America who provide services to us are not required to work full time on our affairs, and devote significant time to the affairs of Resource America. As a result, there may be significant conflicts between us, on the one hand, and the Manager and Resource America on the other, regarding allocation of the Manager's and Resource America's resources to the management of our investment portfolio.

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

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

Our Manager's liability is limited under the management agreement, and we have agreed to indemnify our Manager against certain liabilities.

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

We depend upon information systems of our Manager and Resource America to conduct our operations. Systems failures could significantly disrupt our business.

Our business depends on communications and information systems of our Manager and Resource America. Any failure or interruption of their systems could cause delays or other problems in our activities which could harm our operating results, cause the market price of our common stock to decline and reduce our ability to make distributions.

(Back to Index)

(Back to Index)

Risks Related to Real Estate Investments

Our investments in commercial mortgage loans and mezzanine loans will be subject to the risks inherent in the real estate securing or underlying those investments which could result in losses to us.

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

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

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

For a discussion of additional risks associated with mezzanine loans, see “-Investing in mezzanine debt or mezzanine or other subordinated tranches of CMBS, bank loans and ABS involves greater risks of loss than senior secured debt instruments.”

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

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

(Back to Index)

27

(Back to Index)

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

Historically, we have invested in B notes. A B note is a loan typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B note owners after payment to the senior note owners. Since each transaction is privately negotiated, B notes can vary in their structural characteristics and risks. For example, the rights of holders of B notes to control the process following a borrower default may be limited in certain investments. We currently own one B note, with a book value of $16.1 million, and do not expect that we will make further B note investments during 2015. However, depending upon market and economic conditions, we could resume making B note investments at any time. B notes are less liquid than other forms of commercial real estate debt investments, such as CMBS, and, as a result, we may be able to dispose of underperforming or non-performing B note investments only at a significant discount to book value.

Risks Related to Our Organization and Structure

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

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

- There are ownership limits and restrictions on transferability and ownership in our charter. For purposes of assisting us in maintaining our REIT qualification under the Internal Revenue Code, our charter generally prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of any class or series of our outstanding capital stock. This restriction may:
- discourage a tender offer or other transactions or a change in the composition of our board of directors or control that might involve a premium price for our shares or otherwise be in the best interests of our stockholders; or
- result in shares issued or transferred in violation of such restrictions being automatically transferred to a trust for a charitable beneficiary, resulting in the forfeiture of those shares.
- Our charter permits our board of directors to issue stock with terms that may discourage a third-party from acquiring us. Our board of directors may amend our charter without stockholder approval to increase the total number of authorized shares of stock or the number of shares of any class or series and issue common or preferred stock having preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications, or terms or conditions of redemption as determined by our board. Thus, our board could authorize the issuance of stock with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of our shares might receive a premium for their shares over the then-prevailing market price.
- Our charter and bylaws contain other possible anti-takeover provisions. Our charter and bylaws contain other provisions, including advance notice procedures for the introduction of business and the nomination of directors, that may have the effect of delaying or preventing a change in control of us or the removal of existing directors and, as a result, could prevent our stockholders from being paid a premium for their common stock over the then-prevailing market price.

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

Maryland Control Share Acquisition Act. Maryland law provides that “control shares” of a corporation acquired in a “control share acquisition” will have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. The act defines “control shares” as voting shares of stock that, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: one-tenth or more but less than one-third, one-third or more but less than a majority, or a majority or more of all voting power. A “control share acquisition” means the acquisition of control shares, subject to specific exceptions. If voting rights or control shares acquired in a control share acquisition are not approved at a stockholders' meeting or if the acquiring person does not deliver an acquiring person statement as required by the Maryland Control Share

Acquisition Act then, subject to specific conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights.

(Back to Index)

(Back to Index)

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

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

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

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

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

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

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

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

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

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

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

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

Our right to take action against the Manager is limited.

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

(Back to Index)

(Back to Index)

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

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

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

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

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

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

The SEC staff has commenced an advance notice rulemaking initiative, indicating that it is reconsidering its interpretive policy under Section 3(c)(5)(C) and whether to propose rules to define the basis for the exclusion. We cannot predict the outcome or timing of this reconsideration or potential rulemaking initiative and its impact on our ability to rely on the exclusion.

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

(Back to Index)

(Back to Index)

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

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

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

Tax Risks

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

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

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

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

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

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

When purchasing securities, we have relied and may rely on opinions or advice of counsel for the issuer of such securities, or statements, made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, and also to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income which qualifies under the

75% REIT gross income test. In addition, when purchasing CDO equity, we have relied and may rely on opinions or advice of counsel regarding the qualification of interests in the debt of such CDOs for U.S. federal income tax purposes. The inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

(Back to Index)

We may realize excess inclusion income that would increase our tax liability and that of our stockholders.
If we realize excess inclusion income and allocate it to stockholders, this income cannot be offset by net operating losses of the stockholders. If the stockholder is a tax-exempt entity, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Internal Revenue Code. If the stockholder is a foreign person, it would be subject to federal income tax withholding on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.
Excess inclusion income could result if we hold a residual interest in a REMIC. Excess inclusion income also could be generated if we issue debt obligations, such as certain CDOs, with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage related securities securing those debt obligations, i.e., if we were to own an interest in a taxable mortgage pool. While we do not expect to acquire significant amounts of residual interests in REMICs, we do own residual interests in taxable mortgage pools, which means that we will likely generate significant amounts of excess inclusion income.
If we realize excess inclusion income, we will be taxed at the highest corporate income tax rate on a portion of such income that is allocable to the percentage of our stock held in record name by “disqualified organizations,” which are generally cooperatives, governmental entities and tax-exempt organizations that are exempt from unrelated business taxable income. To the extent that our stock owned by “disqualified organizations” is held in record name by a broker-dealer or other nominee, the broker/dealer or other nominee would be liable for the corporate level tax on the portion of our excess inclusion income allocable to the stock held by the broker-dealer or other nominee on behalf of “disqualified organizations.” We expect that disqualified organizations will own our stock. Because this tax would be imposed on us, all of our investors, including investors that are not disqualified organizations, would bear a portion of the tax cost associated with the classification of us or a portion of our assets as a taxable mortgage pool. A regulated investment company or other pass through entity owning stock in record name will be subject to tax at the highest corporate rate on any excess inclusion income allocated to its owners that are disqualified organizations. Finally, if we fail to qualify as a REIT, our taxable mortgage pool securitizations will be treated as separate corporations, for federal income tax purposes that cannot be included in any consolidated corporate tax return.
Failure to qualify as a REIT would subject us to federal income tax, which would reduce the cash available for distribution to our stockholders.
We believe that we have been organized and operated in a manner that has enabled us to qualify as a REIT for federal income tax purposes commencing with our taxable year ended on December 31, 2005. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis.
If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we will be subject to federal income tax, including any applicable alternative minimum tax on our taxable income, at regular corporate rates. Distributions to stockholders would not be deductible in computing our taxable income. Corporate tax liability would reduce the amount of cash available for distribution to our stockholders. Under some circumstances, we might need to borrow money or sell assets in order to pay that tax. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for the statutory relief provisions, we no longer would be required to distribute substantially all of our REIT taxable income, determined without regard to the dividends paid deduction and not including net capital gains, to our stockholders. Unless our failure to qualify as a REIT was excused under federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify. In addition, if we fail to qualify as a REIT, our taxable mortgage pool securitizations will be treated as separate corporations for U.S. federal income tax purposes.
Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders.
In order to qualify as a REIT, in each calendar year we must distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will

be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

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

(Back to Index)

(Back to Index)

We intend to make distributions to our stockholders in a manner intended to satisfy the 90% distribution requirement and to distribute all or substantially all of our net taxable income to avoid both corporate income tax and the 4% nondeductible excise tax. There is no requirement that a domestic TRS distribute its after-tax net income to its parent REIT or their stockholders and our U.S. TRSs may determine not to make any distributions to us. However, non-U.S. TRSs, such as Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CLO VIII, Whitney CLO I, Harvest CLO VII, Moselle CLO, Harvest CLO VIII, Harvest X Investor and Harvest X CLO which we discuss in "Management's Discussion and Analysis of Financial Conditions and Results of Operations," will generally be deemed to distribute their earnings to us on an annual basis for federal income tax purposes, regardless of whether such TRSs actually distribute their earnings.

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

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

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

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

A REIT may own up to 100% of the securities of one or more TRSs. A TRS may earn specified types of income or hold specified assets that would not be qualifying income or assets if earned or held directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (20% for our 2009 and prior taxable years) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. A TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns, whether or not it distributes that income to us. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Resource TRS, Resource TRS II, Resource TRS III, Resource TRS IV, Resource TRS V, LTCC, Resource Residential, Inc., and RCC Resi TRS each will pay federal, state and local income tax on its taxable income, and its after-tax net income is available for distribution to us but is not required to be distributed to us. Income that is not distributed to us by our U.S. TRSs will not be subject to the REIT 90% distribution requirement and therefore will not be available for distributions to our stockholders. We anticipate that the aggregate value of the securities we hold in our TRSs will be less than 25% of the value of our total assets, including our TRS securities. We will monitor the compliance of our investments in TRSs with the rules relating to value of assets and transactions not on an arm's-length basis. We cannot assure you, however, that we will be able to comply with such rules.

(Back to Index)

Complying with REIT requirements may limit our ability to hedge effectively.
The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge MBS and related borrowings. Under these provisions, our annual gross income from qualifying and non-qualifying hedges of our borrowings, together with any other income not generated from qualifying real estate assets, cannot exceed 25% of our gross income. In addition, our aggregate gross income from non-qualifying hedges, fees and certain other non-qualifying sources cannot exceed 5% of our annual gross income determined without regard to income from qualifying hedges. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through Resource TRS. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.
The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, that would be treated as sales for federal income tax purposes.
A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were able to sell or securitize loans in a manner that was treated as a sale of the loans for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans and may limit the structures we utilize for our securitization transactions even though such sales or structures might otherwise be beneficial to us.
Tax law changes could depress the market price of our common stock.
The federal income tax laws governing REITs or the administrative interpretations of those laws may be amended at any time. We cannot predict when or if any new federal income tax law or administrative interpretation, or any amendment to any existing federal income tax law or administrative interpretation, will become effective and any such law or interpretation may take effect retroactively. Tax law changes could depress our stock price or restrict our operations.
Dividends paid by REITs do not qualify for the reduced tax rates provided for under current law.
Dividends paid by REITs are generally not eligible for the reduced 15% maximum tax rate for dividends paid to individuals (20% for those with taxable income above $400,000 (if single) or $450,000 (if married and filing jointly) under current law. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends to which more favorable rates apply, which could reduce the value of the stocks of REITs. Dividends from REITs as well as regular corporate dividends will also be subject to a 3.8% Medicare surtax for taxpayers with modified adjusted gross income above $200,000 (if single) or $250,000 (if married and filing jointly).
We may lose our REIT qualification or be subject to a penalty tax if the Internal Revenue Service successfully challenges our characterization of income inclusions from our foreign TRSs.
We likely will be required to include in our income, even without the receipt of actual distributions, earnings from our foreign TRSs, including from our current and contemplated equity investments in CDOs, such as our investment in Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CLO VIII, Whitney CLO, Harvest CLO VII, Moselle CLO, Harvest CLO VIII, Harvest X Investors and Harvest X CLO. We intend to treat certain of these income inclusions as qualifying income for purposes of the 95% gross income test applicable to REITs but not for purposes of the REIT 75% gross income test. The provisions that set forth what income is qualifying income for purposes of the 95% gross income test provide that gross income derived from dividends, interest and other enumerated classes of passive income qualify for purposes of the 95% gross income test. Income inclusions from equity investments in our foreign TRSs are technically neither dividends nor any of the other enumerated categories of income specified in the 95% gross income test for U.S. federal income tax purposes, and there is no clear precedent with respect to the qualification of such income for purposes of the REIT gross income tests. However, based on advice of counsel, we intend to treat such income inclusions, to the extent distributed by a foreign TRS in the year accrued, as qualifying income for purposes of the 95% gross income test. In addition, in 2011, the IRS issued a private letter ruling to a REIT reaching a result consistent with our treatment. Nevertheless, because this income does not meet the literal

requirements of the REIT provisions, it is possible that the IRS could successfully take the position that it is not qualifying income. In the event that it was determined not to qualify for the 95% gross income test, we would be subject to a penalty tax with respect to the income to the extent it and other nonqualifying income exceeds 5% of our gross income and/or we could fail to qualify as a REIT. See “Federal Income Tax Consequences of Our Qualification as a REIT.” In addition, if such income was determined not to qualify for the 95% gross income test, we would need to invest in sufficient qualifying assets, or sell some of our interests in our foreign TRSs to ensure that the income recognized by us from our foreign TRSs or such other corporations does not exceed 5% of our gross income, or cease to qualify as a REIT.

(Back to Index)

(Back to Index)

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Philadelphia, Pennsylvania:

We maintain offices through our Manager. Our Manager and Resource America maintains executive and corporate offices at One Crescent Drive in the Philadelphia Navy Yard, Philadelphia, Pennsylvania, under a lease for 13,484 square feet that expires in May 2019.

In addition, in October 2012 and amended in May 2013, Resource America signed a ten-year lease which commenced in August 2013 for 34,476 square feet of office space at 1845 Walnut Street, Philadelphia, Pennsylvania, an office building in which Resource America owns a 7% equity interest. The lease expires in September 2023.

New York, New York:

Resource America maintains additional executive offices in a 12,930 square foot location at 712 5th Avenue, New York, New York under a lease agreement that expires in July 2020. A portion of this office space is sublet to The Bancorp, Inc., an affiliated entity of Resource America.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

(Back to Index)

(Back to Index)

PART II

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

Market Information

Our common stock has been listed on the NYSE under the symbol "RSO" since our initial public offering in February 2006. The following table sets forth for the indicated periods the high and low prices for our common stock, as reported on the NYSE, and the dividends declared and paid during our past two fiscal years:

	High	Low	Dividends Declared
December 31, 2014			
Fourth Quarter	$5.63	$4.79	$0.20 (1)
Third Quarter	$5.63	$4.87	$0.20
Second Quarter	$5.90	$5.36	$0.20
First Quarter	$6.08	$5.52	$0.20
December 31, 2013			
Fourth Quarter	$6.23	$5.77	$0.20
Third Quarter	$6.64	$5.42	$0.20
Second Quarter	$6.72	$6.06	$0.20
First Quarter	$6.87	$5.81	$0.20

(1) We distributed a regular dividend of $0.20 on January 28, 2015, to stockholders of record as of December 31, 2014.

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

As of February 26, 2015, there were 134,079,374 common shares outstanding held by 505 persons of record.

See Item 12 - "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information relating to securities authorized for issuance under our equity compensation plans.

Our 8.50% Series A Cumulative Redeemable Preferred Stock, or Series A Preferred Stock, are listed on the NYSE and traded under the symbol "RSOPrA." The Series A Preferred shares were first issued in the second quarter of 2012. We declared a dividend per share of $0.27153 on the Series A Preferred Stock for the second quarter of 2012, representing the pro ration of the specified dividend for the quarter for the period during which the Series A Preferred Stock were outstanding in the quarter. In each subsequent quarter, we have declared and paid the specified dividend per share of $0.53125. No dividends are currently in arrears on the Series A Preferred Stock.

Our 8.25% Series B Cumulative Redeemable Preferred Stock, or Series B Preferred Stock, are listed on the NYSE and traded under the symbol "RSOPrB." The Series B Preferred shares were first issued in the third quarter of 2012. We declared a dividend per share of $0.16042 on the Series B Preferred Stock for the third quarter of 2012, representing the pro ration of the specified dividend for the quarter for the period during which the Series B Preferred Stock were outstanding in the quarter. In each subsequent quarter, we have declared and paid the specified dividend per share of $0.515625. No dividends are currently in arrears on the Series B Preferred Stock.

Our Series C 8.625% Cumulative Redeemable Preferred Stock, or Series C Preferred Stock, are listed on the NYSE and traded under the symbol "RSOPrC." The Series C Preferred shares were first issued in the second quarter of 2014, We declared a dividend per share of $0.299479 on the Series C Preferred Stock for the second quarter of 2014, representing the pro ration of the specified dividend for the quarter for the period during which the Series C Preferred Stock were outstanding in the quarter. In each subsequent quarter, we have declared and paid the specified dividend per share of $0.5390625. No dividends are currently in arrears on the Series C Preferred Stock.

(Back to Index)

(Back to Index)

Performance Graph

The following line graph presentation compares cumulative total shareholder returns of our common stock with the Russell 2000 Index and the NAREIT All REIT Index for the period from December 31, 2009 to December 31, 2014. The graph and table assume that $100 was invested in each of our common stock, the Russell 2000 Index and the NAREIT All REIT Index on December 31, 2009, and that all dividends were reinvested. This data as furnished by the Research Data Group.

(Back to Index)

(Back to Index)

ITEM 6 . SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF
RESOURCE CAPITAL CORP AND SUBSIDIARIES

The following selected financial and operating information should be read in conjunction with Item 7 - “Management's Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements, including the notes, included elsewhere herein (in thousands, except share data).

	As of and for the Years Ended December 31,				
	2014	2013	2012	2011	2010
Consolidated Income Statement Data:					
REVENUES:					
Interest income	$126,907	$117,976	$133,330	$109,874	$103,911
Interest expense	45,473	61,010	42,792	32,186	36,466
Net interest income	81,434	56,966	90,538	77,688	67,445
Other revenues	9,571	6,094	7,137	10,834	99
Rental income	8,441	19,923	11,463	3,656	35
Total revenues	99,446	82,983	109,138	92,178	67,579
OPERATING EXPENSES	62,783	59,958	78,452	62,139	102,733
	36,663	23,025	30,686	30,039	(35,154)
OTHER REVENUE (EXPENSE)					
Equity in Earnings (losses) of unconsolidated subsidiaries	4,767	949	(2,709)	112	231
Net realized gain on sales of investment securities available-for-sale and loans	15,283	9,637	4,106	2,643	4,821
Net realized and unrealized (loss) gain on investment securities, trading	(2,818)	(324)	12,435	837	14,791
(Loss) on reissuance/gain on the extinguishment of debt	(4,442)	—	16,699	3,875	34,610
Unrealized gain (loss) and net interest income on linked transactions, net	7,850	(3,841)	728	216	
Gain on sale of real estate	6,127	16,616	—	—	—
Other (expense) income	(1,262)	391	2,498	(6)	148
Total other revenue	25,505	23,428	33,757	7,677	54,601
NET INCOME	62,168	46,453	64,443	37,716	19,447
Net income allocated to preferred shares	(17,176)	(7,221)	(1,244)	—	—
Net income allocable to non-controlling interest, net of taxes	(965)	—	—	—	—
NET INCOME ALLOCABLE TO COMMON SHARES	$44,027	$39,232	$63,199	$37,716	$19,447

(Back to Index)

(Back to Index)

	As of and for the Years Ended December 31,				
	2014	2013	2012	2011	2010
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$79,905	$262,270	$85,278	$43,116	$29,488
Restricted cash	122,138	63,309	94,112	142,806	168,192
Investment securities, trading	20,786	11,558	24,843	38,673	17,723
Investment securities available-for-sale, pledged as collateral, at fair value	197,800	162,608	195,200	136,188	57,998
Investment securities available-for-sale, at fair value	77,920	52,598	36,390	4,678	5,962
Investment securities held-to-maturity, pledged as collateral	—	—	—	—	29,036
Investment in real estate	—	29,778	75,386	48,027	—
Loans, pledged as collateral and net of allowances of $4.6 million, $13.8 million, $17.7 million, $27.5 million and $34.2 million	1,925,980	1,369,526	1,793,780	1,772,063	1,443,271
Loans held for sale	111,736	21,916	48,894	3,154	28,593
Investments in unconsolidated entities	59,827	52,598	45,413	47,899	6,791
Intangible assets	9,736	11,822	13,192	19,813	—
Total assets	2,729,139	2,151,427	2,478,251	2,284,724	1,934,200
Borrowings	1,716,871	1,319,810	1,785,600	1,794,083	1,543,251
Total liabilities	1,777,028	1,377,503	1,864,906	1,855,034	1,585,874
Total stockholders' equity	935,523	773,924	613,345	429,690	348,326
Non-controlling interests	16,588	—	—	—	—
Total equity	952,111	773,924	613,345	429,690	348,326

	As of and for the Years Ended December 31,				
	2014	2013	2012	2011	2010
Per Share Data:					
Dividends declared per common share	$0.80	$0.80	$0.80	$1.00	$1.00
Net income per share - basic	$0.34	$0.33	$0.71	$0.54	$0.41
Net income per share – diluted	$0.34	$0.33	$0.71	$0.53	$0.41
Weighted average number of shares outstanding - basic	128,031,064	118,478,672	88,410,272	70,410,131	47,715,082
Weighted average number of shares outstanding - diluted	129,259,386	120,038,973	89,284,488	70,809,088	47,907,281

(Back to Index)

(Back to Index)

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

The following discussion provides information to assist you in understanding our financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report. This discussion contains forward-looking statements. Actual results could differ materially from those expressed in or implied by those forward-looking statements. Please see "Forward-Looking Statements" and "Risk Factors" in this report for a discussion of certain risks, uncertainties and assumptions associated with those statements.

We are a diversified real estate investment trust that is primarily focused on originating, holding and managing commercial mortgage loans and other commercial real estate-related debt and equity investments. We also make other commercial finance investments. We are organized and conduct our operations to qualify as a REIT, under Subchapter M of the Internal Revenue Code of 1986, as amended. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategies. We invest in a combination of real estate-related assets and, to a lesser extent, higher-yielding commercial finance assets. We have financed a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of those investments, and have sought to mitigate interest rate risk through derivative instruments.

We are externally managed by Resource Capital Manager, Inc., an indirect wholly-owned subsidiary of Resource America, a specialized asset management company that uses industry-specific expertise to evaluate, originate, service and manage investment opportunities through its commercial real estate, financial fund management and commercial finance operating segments. As of September 30, 2014, Resource America managed approximately $19.4 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance the purchase of those assets, from management of assets and from hedging interest rate risks. We generate revenues primarily from the interest and fees we earn on our whole loans, A notes, B notes, mezzanine debt securities, CMBS, bank loans, middle market loans, other ABS, and structured note investments. We also generate revenues from the rental and other income from real properties we own, from management of externally originated bank loans, from our residential mortgage origination business, and from our investment in an equipment leasing business. Historically, we have used a substantial amount of leverage to enhance our returns and we have financed each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments is a significant part of our expenses. Our net income depends on our ability to control these expenses relative to our revenue. In our bank loan, middle market loan, residential mortgage loan, CMBS and ABS portfolios, we historically have used warehouse facilities as a short-term financing source as well as CDOs and CLOs and, to a lesser extent, other term financing as long-term financing sources. In our commercial real estate loan portfolio, we historically have used repurchase agreements as a short-term financing source, and CDOs commercial real estate securitizations and, to a lesser extent, other term financing as long-term financing sources. Our other term financing has consisted of long-term, match-funded financing provided through long-term bank financing and asset-backed financing programs, depending upon market conditions and credit availability.

Having gained traction in 2013, the economic environment in the United States continued to show moderate growth during 2014, which resulted in several positive operating developments for us. Our ability to access the capital markets continued to improve, as evidenced by our Series C preferred stock offering in June 2014, resulting in net proceeds at issuance to us of $116.2 million, and by the success of our dividend reinvestment and share purchase program, or DRIP, which raised $30.3 million during the year ended December 31, 2014. In addition, we supplemented our common equity issuances with issuances of preferred stock through an at-the-market program which resulted in proceeds of $56.6 million in 2014. This brought our total net proceeds raised through the capital markets to $203.1 million in 2014, after underwriting discounts and commissions and other offering expenses. This improved environment and increased capital markets access has allowed us to substantially increase our funded

originations of commercial real estate loans from $344.3 million in 2013 to $689.4 million in 2014.
We also continued to experience improved securitization markets, closing an additional real estate securitization for $353.9 million in July 2014. We were able to use the proceeds from this CLO to completely pay down a financing facility and thereby generate additional borrowing capacity. Further, we were able to modify and expand our CRE financing facility with Wells Fargo Bank by increasing the facility from $250.0 to $400.0 million and extend the maturity date to August 27, 2016 with two one-year extension options available to us. We were also successful in extending the maturity date on our CMBS financing facility to January 31, 2016. We continue to engage in discussions with potential financing sources about providing or expanding commercial real estate term financing to augment and cautiously grow our loan and security portfolios. We have expanded our borrowings with the use of term and additional repurchase agreements and are using them primarily to finance newly underwritten

(Back to Index)

(Back to Index)

commercial real estate loans and to purchase highly-rated CMBS. We anticipate replacing these short-term borrowings with longer-term financing in the form of securitization borrowings as we did in July 2014 and December 2013 with the closings of $353.9 million and $307.8 million, respectively, of commercial real estate, or CRE, securitizations. On February 24, 2015 we closed our third securitization in the last 14 months with the close of Resource Capital Corp. 2015-CRE3, a $346.2 million CLO backed by self-originated commercial mortgages, which got us to just in excess of $1.0 billion of CRE loans financed by these securitizations during that time frame. We believe this indicates a marketplace recognition of our ability to originate and structure high-quality transitional commercial real estate loans. However, we caution investors that even as financing through the credit markets becomes more available, we may not be able to obtain economically favorable terms.

Although economic conditions in the United States have improved, previous conditions in real estate and credit markets continue to affect both us and a number of our commercial real estate borrowers. Over a period of several years, we entered into loan modifications with respect to 14 of our remaining outstanding commercial real estate loans. During the past 21 months, we have adjusted our provision for loan losses to reflect the effect of these conditions on our borrowers as well as, where necessary, market-related temporary adjustments to the market valuations of both CMBS and ABS in our investment portfolio. However, during 2013 and continuing through December 31, 2014, the improved economic conditions led to a stabilization in the credit quality of our portfolio and, as a result, our provision for loan losses has decreased significantly in 2014. For the year ended December 31, 2014, we have a net recovery in the provision for loan losses of $1.8 million, primarily due to the successful refinancing of a commercial real estate loan position on which we had previously established a significant reserve for credit loss. Also, other comprehensive income saw an increase of $20.1 million at December 31, 2014. While we believe we have appropriately valued the assets in our investment portfolio at December 31, 2014, we cannot assure you that further impairments will not occur or that our assets will otherwise not be adversely affected by market conditions.

With respect to our investments and investment portfolio growth, we continued to see increased opportunities to deploy our capital. During 2013 and through December 31, 2014, we have underwritten 61 new CRE loans for a total commitment of $1.1 billion. These loans were in part financed through our CRE term facilities, our legacy CRE CDOs, and our new CRE securitizations. We also purchased 22 newly underwritten CMBS for $59.2 million during the same time period all of which were financed through our Wells Fargo facility. In addition, we purchased 26 CMBS bonds for $123.8 million that were financed by short-term repurchase agreements and also purchased seven CMBS bonds for $43.1 million where no debt financing sources were utilized. We intend to use the existing capacity in our CMBS and CRE term credit facilities with Wells Fargo of $70.1 million and $218.7 million, respectively, and with Deutsche Bank of $173.8 million, as of December 31, 2014, to help finance new CRE loans and CMBS investments. As of February 24, 2015, and concurrently with the closing of our third CRE securitization in the last 14 months, Resource Capital Corp. 2015-CRE3, we have substantially repaid the balances on these facilities.

On October 31, 2013, we, through RCC Residential, Inc., a taxable REIT subsidiary, acquired a residential mortgage origination company, Primary Capital Mortgage LLC, or PCM, an Atlanta-based firm. Our acquisition of PCM represents a return to the residential mortgage investment market, by providing us with our first residential mortgage origination platform. On June 30, 2014, we also closed a residential jumbo loan-backed securitization where we retained approximately $30.0 million of the structure's mezzanine securities. PCM is now licensed in 35 states, up from 7 states when we acquired the business. We intend to cautiously expand this business over the next 12 to 18 months while adding infrastructure, staff and new technology.

In the past, we also had at our disposal the use of recycled capital in our bank loan CLO structures to make new investments. As of December 31, 2014, both of our remaining bank loan CLOs and our two earlier vintage real estate CDOs have ended their reinvestment periods. Additionally, our three most recent securitizations were structured as static deals, as such, they were not structured with reinvestment periods. As such, principal and interest received by these vehicles will be used to paydown their note balances and to provide distributions in accordance with their respective indentures. As these vehicles liquidate, we expect to use the returned capital to invest in strategic opportunities as they arise.

We continue to see a decline in our commercial finance assets, specifically, our bank loan portfolio, as two of our bank loan CLOs were substantially liquidated in 2013. Two of our CLOs were liquidated in 2014 and another is expected to liquidate in 2015. The remaining legacy CLO in our portfolio has finished its reinvestment period and, as a result, as the collateral assets repay the proceeds are used to pay down the associated debt. This trend has caused our net interest income from bank loans to decline substantially in 2014 and the declining trend will continue into 2015. We began to mitigate this trend by investing in new CLOs and European structured notes in late 2013 and in 2014. We also expect to mitigate this trend by continuing to grow our real estate lending platform and, to a lesser extent, by deploying capital into our middle-market lending business, which loans are similar in nature to bank loans.

(Back to Index)

(Back to Index)

In the latter half of 2013, we provided a middle market lending operation with funds to invest on our behalf. These funds were derived from proceeds of sales from a partial liquidation of our trading portfolio. Our first investments were in bank loans purchased in the secondary market; however, in December 2013, we closed on a self-originated loan. We originated and purchased new middle market loan investments of $268.6 million during 2014. We expect the increasing trend in the investment in our middle market portfolio to continue through 2015. In September, we closed on a syndicated financing facility for our middle market loan portfolio comprised of direct originations and syndicated loans with a capacity of $125.0 million. We had $113.5 million outstanding as of December 31, 2014 on this facility. We expect to expand the financing capacity of our new facility and to continue to grow this business in 2015.

Due to these developments, we expect to continue to modestly increase our net interest income for 2015. However, because we believe that economic conditions in the United States are fragile, and could be significantly harmed by occurrences over which we have no control, we cannot assure you that we will be able to meet our expectations or that we will not experience net interest income reductions.

As of December 31, 2014, we had allocated our invested equity capital among our targeted asset classes as follows: 67% in CRE assets, 29% in commercial finance assets and 4% in other investments. As of December 31, 2013, we had allocated our invested equity capital among our targeted asset classes as follows: 83% of our portfolio in CRE assets, 15% in commercial finance assets and 2% in other investments.

Results of Operations

Our net income allocable to common shares for the year ended December 31, 2014 was $44.0 million, or $0.34 per share (basic and diluted) as compared to net income allocable to common shares of $39.2 million, or $0.33 per share (basic and diluted) for the year ended December 31, 2013 and net income allocable to common shares of $63.2 million, or $0.71 per share (basic and diluted) for the year ended December 31, 2012.

Interest Income

The following tables set forth information relating to our interest income recognized for the periods presented (in thousands, except percentages):

	Year Ended December 31, 2014 Weighted Average		Year Ended December 31, 2013 Weighted Average		Year Ended December 31, 2012 Weighted Average	
	Yield	Balance	Yield	Balance	Yield	Balance
Interest income:						
Interest income from loans:						
Bank loans	4.69%	$514,939	5.54%	$945,599	5.94%	$1,189,898
Middle market loans	8.95%	$129,271	7.64%	$7,080	—%	$—
Commercial real estate loans	6.00%	$1,088,880	5.81%	$767,287	5.25%	$701,836
Interest income from securities:						
CMBS-private placement	6.53%	$186,732	4.93%	$229,272	5.22%	$216,460
ABS	8.89%	$45,609	5.06%	$27,399	4.80%	$32,087
Corporate bonds	6.98%	$2,685	3.91%	$20,220	4.29%	$8.237
RMBS	7.80%	$9,228	5.55%	$12,348	3.10%	$34,396
Preference payments on structured notes	31.34%	$20,918	10.10%	$38,778	19.07%	$51,239

(Back to Index)

(Back to Index)

The following tables summarize interest income for the years indicated (in thousands, except percentages):

Type of Security	Coupon Interest	Unamortized (Discount) Premium	Net Amortization/ Accretion	Interest Income	Fee Income	Total
Year Ended December 31, 2014:						
Bank loans	3.84 %	$(1,240)	$2,136	$21,595	$849	$24,580
Middle market loans	— %	$(304)	48	11,688	142	11,878
Commercial real estate loans	5.51 %	$(7,656)	39	63,688	2,672	66,399
Total interest income from loans			2,223	96,971	3,663	102,857
CMBS-private placement	4.29 %	$(2,980)	2,803	9,442	—	12,245
RMBS	— %	$(18)	—	720	—	720
ABS	6.56 %	$(2,153)	720	3,393	—	4,113
Corporate bonds	5.94 %	$(40)	27	160	—	187
Total interest income from securities			3,550	13,715	—	17,265
Preference payments on structured notes			—	6,555	—	6,555
Other			—	230	—	230
Total interest income - other			—	6,785	—	6,785
Total interest income			$5,773	$117,471	$3,663	$126,907
Year Ended December 31, 2013:						
Bank loans	4.23 %	$(3,592)	$9,472	$41,337	$2,727	$53,536
Middle market loans	— %	$(84)	13	595	(1)	607
Commercial real estate loans	5.57 %	$(92)	35	43,926	1,351	45,312
Total interest income from loans			9,520	85,858	4,077	99,455
CMBS-private placement	3.74 %	$(6,583)	2,050	9,361	—	11,411
RMBS	— %	$—	—	685	—	685
ABS	2.06 %	$(2,394)	681	718	—	1,399
Corporate bonds	4.13 %	$(68)	(18)	832	—	814
Total interest income from securities			2,713	11,596	—	14,309
Preference payments on structured notes			—	3,918	—	3,918
Other			—	294	—	294
Total interest income - other			—	4,212	—	4,212
Total interest income			$12,233	$101,666	$4,077	$117,976
Year Ended December 31, 2012:						
Bank loans	4.25 %	$(24,465)	$17,784	$51,580	$2,147	$71,511
Middle market loans	— %	$—	—	—	—	—
Commercial real estate loans	5.05 %	$(127)	33	35,759	1,727	37,519
Total interest income from loans			17,817	87,339	3,874	109,030
CMBS-private placement	3.60 %	$(8,011)	2,635	8,723	—	11,358
RMBS	— %	$—	—	1,067	—	1,067
ABS	2.41 %	$(3,145)	718	785	—	1,503
Corporate bonds	3.69 %	$479	(26)	394	—	368
Total interest income from securities			3,327	10,969	—	14,296
Preference payments on structured notes			—	9,773	—	9,773

Other	—	231	—	231
Total interest income - other	—	10,004	—	10,004
Total interest income	$21,144	$108,312	$3,874	$133,330

(Back to Index)

(Back to Index)

	Years Ended December 31, 2014	2013	Year to Year Dollar Change	Year to Year Percent Change
Interest income from loans:				
Bank loans	$24,580	$53,536	$(28,956)	(54)%
Middle market loans	11,878	607	11,271	1,857%
Commercial real estate loans	66,399	45,312	21,087	47%
Total interest income from loans	102,857	99,455	3,402	3%
Interest income from securities:				
CMBS-private placement	12,245	11,411	834	7%
ABS	4,113	1,399	2,714	194%
Corporate bonds	187	814	(627)	(77)%
Residential mortgage-backed securities, or RMBS	720	685	35	5%
Total interest income from securities	17,265	14,309	2,956	21%
Interest income - other:				
Preference payments on structured notes	6,555	3,918	2,637	67%
Temporary investment in over-night repurchase agreements	230	294	(64)	(22)%
Total interest income - other	6,785	4,212	2,573	61%
Total interest income	$126,907	$117,976	$8,931	8%

Year Ended December 31, 2014 as compared to Year Ended December 31, 2013

Aggregate interest income increased $8.9 million (8%) to $126.9 million for the year ended December 31, 2014 as compared to $118.0 million for the year ended December 31, 2013. We attribute this increase to the following:

Interest Income from Loans

Bank loans. The weighted average loan balance of our bank loan portfolio decreased by $430.7 million to $514.9 million principally due to four of our CLOs, Apidos CLO I, Moselle CLO, Apidos CLO VIII and Whitney CLO I , liquidating in October 2014, November 2014, September 2013 and October 2013, respectively. Additionally, all remaining CLOs, except for Moselle, had matured and reached the end of their reinvestment periods either in prior years or relatively early in 2014, and, as a result, any principal collected was used to pay down notes instead of being reinvested in new assets. The decrease in the weighted average yield from 5.54% to 4.69% was primarily the result of the recognition of significant discount accretion in 2013 upon the liquidation of Apidos CLO VIII and Whitney CLO.

Middle market loans. Through focused efforts to increase the investment in our middle market lending business, the portfolio grew from a weighted average balance of $7.1 million for the year ended December 31, 2013 to a weighted average balance of $129.3 million for the year ended December 31, 2014. Concurrent with this growth and changes in the general lending market, the weighted average yield on investments increased from 7.64% at December 31, 2013 to 8.95% as of December 31, 2014.

Commercial real estate loans. Interest income on commercial real estate loans increased by $21.1 million to $66.4 million for the year ended December 31, 2014 due primarily to an increase in the weighted average balance of loans from $767.3 million to $1,088.9 million and, to a lesser extent, to an increase in the weighted average yield from 5.81% to 6.00%. The increase in the weighted average balance of loans is due to our origination of loans for inclusion in our CRE securitizations that closed in December 2013, July 2014, and February 2015. The increase in the weighted average yield is primarily the result of the recognition of a $1.6 million exit fee on a legacy loan that paid off in 2014.

Interest Income from Securities

Asset-Backed Securities, or ABS. Interest income from ABS increased $2.7 million to $4.1 million for the year ended December 31, 2014. This increase is primarily due to the acquisitions of structured asset-backed securities by our consolidated variable interest entities, RCM Global, LLC, or RCM Global, and Moselle CLO, which significantly contributed to the increase in the weighted average balance of the ABS portfolio from $27.4 million to $45.6 million. These purchases also increased the weighted average yield of our ABS portfolio from 5.06% to 8.89% during 2014, as these securities are higher-yielding, foreign-currency denominated CLO mezzanine and equity debt securities purchased at significant discounts to par.

(Back to Index)

(Back to Index)

Interest income - other. Interest income - other increased $2.6 million to $6.8 million for the year ended December 31, 2014. Substantially all of this increase relates to incremental interest income provided by our investments in European structured notes at the end of 2013 and during 2014.

	Years Ended December 31,		Year to Year Dollar Change	Year to Year Percent Change
	2013	2012		
Interest income from loans:				
Bank loans	$53,536	$71,511	$(17,975)	(25)%
Middle market loans	607	—	607	100 %
Commercial real estate loans	45,312	37,519	7,793	21 %
Total interest income from loans	99,455	109,030	(9,575)	(9)%
Interest income from securities:				
CMBS-private placement	11,411	11,358	53	— %
ABS	1,399	1,503	(104)	(7)%
Corporate bonds	814	368	446	121 %
Residential mortgage-backed securities, or RMBS	685	1,067	(382)	(36)%
Total interest income from securities	14,309	14,296	13	— %
Interest income - other:				
Preference payments on structured notes	3,918	9,773	(5,855)	(60)%
Temporary investment in over-night repurchase agreements	294	231	63	27 %
Total interest income - other	4,212	10,004	(5,792)	(58)%
Total interest income	$117,976	$133,330	$(15,354)	(12)%

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012

Aggregate interest income decreased $15.4 million to $118.0 million for the year ended December 31, 2013. We attribute this decrease to the following:

Interest Income from Loans. Aggregate interest income from loans decreased $9.6 million to $99.5 million for the year ended December 31, 2013.

Interest income on bank loans decreased $18.0 million to $53.5 million for the year ended December 31, 2013. The decrease for the year ended December 31, 2013 resulted primarily from the following:

- a decrease in the weighted average loan balance of $244.3 million to $945.6 million for the year ended December 31, 2013 from $1.2 billion for the year ended December 31, 2012, principally due to two of our CLOs, Apidos CLO VIII and Whitney CLO I , liquidating in September 2013 and October 2013, respectively. In addition, two of our remaining CLOs (Apidos CLO I and Apidos CLO III) had reached the end of their reinvestment periods in prior years and, as a result, any principal collected is used to pay down notes instead of being reinvested in new assets. For the year ended December 31, 2013, Apidos CLO I and Apidos CLO III paid down a total of $173.2 million par value of loans; and
- a decrease in the weighted average yield to 5.54% for the year ended December 31, 2013 as compared to 5.94% for the year ended December 31, 2012, primarily as a result of the decrease in accretion income from Apidos CLO VIII and Whitney CLO I as a result of their liquidation, as well as a decrease in accretion income from Apidos CDO I and Apidos CDO III resulting from decreasing asset and discount balances as both securitizations reached the end of their reinvestment periods.

(Back to Index)

(Back to Index)

Interest income on CRE loans increased $7.8 million to $45.3 million for the year ended December 31, 2013. This increase is a result of the following combination of factors:

- an increase in the weighted average yield to 5.81% during the year ended December 31, 2013 from 5.25% during the year ended December 31, 2012 as a result of newly originated real estate loans with higher stated interest rates than our legacy portfolio and as a result of exit fees from seven loans that paid off during the year ended December 31, 2013; and
- an increase of $65.5 million in the weighted average loan balance to $767.3 million for the year ended December 31, 2013 from $701.8 million for the year ended December 31, 2012 as we reinvested proceeds from payoffs and paydowns, classified as restricted CDO cash on our balance sheet, beginning in the fourth quarter of 2011, with the majority of these proceeds being reinvested during the second and third quarters of 2012. In addition, we began to originate new loans financed by our Wells Fargo CRE credit facility coupled with new equity raised in 2012.

Interest Income from Securities. Aggregate interest income from securities increased $13,000 to $14.3 million for the year ended December 31, 2013. The increase in interest income from securities resulted principally from the following:

Interest income on CMBS-private placement increased $53,000 to $11.4 million for the year ended December 31, 2013. The increase resulted from an increase in the weighted average balance of assets of $12.8 million during the year ended December 31, 2013 to $229.3 million from $216.5 million for the year ended December 31, 2012 primarily as a result of the purchase of assets on our Wells Fargo CMBS facility beginning in February 2011 and purchases using three short-term repurchase agreements as well as proceeds from our common and preferred stock offerings. This was partially offset by the reclassification of assets to linked transactions when certain assets were financed.

The increase in interest income on CMBS-private placement as a result of the increase in the weighted average balance was almost completely offset by a decrease in the weighted average yield of assets to 4.93% for the year ended December 31, 2013 from 5.22% for the year ended December 31, 2012 primarily as a result of the decrease in accretion income caused by higher purchase prices on newer securities. The new assets financed by our Wells facility were typically purchased at a premium. Our legacy CMBS assets had previously been purchased at a discount. Interest income from ABS decreased $104,000 (7%) to $1.4 million for the year ended December 31, 2013 from $1.5 million for the year ended December 31, 2012 as a result of a decrease of $4.7 million in the weighted average loan balance to $27.4 million for the year ended December 31, 2013, from $32.1 million for the year ended December 31, 2012, as a result of $6.8 million in paydowns from October 2012 through December 2013. The decrease in the weighted average balance was partially offset by an increase in the weighted average yield during the year ended December 31, 2013 to 5.06% from 4.80% during the year ended December 31, 2012 as a result of the paydowns during 2013, which accelerated accretion income recognition.

Interest income from corporate bonds increased $446,000 to $814,000 for the year ended December 31, 2013 and was the result of our acquisition in October 2012 and in May 2013 of 66.6% and 1.7%, respectively, of the equity in Whitney CLO I which resulted in us consolidating this entity that held some corporate bonds. Whitney CLO I was subsequently liquidated in October 2013.

Interest income on RMBS decreased $382,000 to $685,000 for the year ended December 31, 2013. The decrease is almost entirely the result of the sale of four positions during the year ended December 31, 2012 and two positions during the year ended December 31, 2013.

Interest Income - Other. Aggregate interest income-other decreased $5.8 million to $4.2 million for the year ended December 31, 2013 and is primarily related to the divestiture of a large portion of our trading securities investment program with Resource Capital Markets, Inc., a wholly-owned subsidiary of Resource America, that invested $13.0 million of our funds under an investment management agreement. The payments vary from period to period and are based on cash flows from the underlying securities rather than on a contractual interest rate. The decrease of the weighted average balance of assets of $12.5 million to $38.8 million for the year ended December 31, 2013 as compared to $51.2 million for the year ended December 31, 2012 and was primarily related to the sale of 12 securities in September 2012, which has significantly reduced the balance of investments held in trading securities. The remaining portfolio has decreased substantially as there were eight positions at December 31, 2013 and 26 positions at

December 31, 2012, and as a result, there are fewer available distributions from the positions to recognize.

(Back to Index)

Interest Expense

The following tables set forth information relating to our interest expense incurred for the periods presented by asset class (in thousands, except percentages):

	Year Ended December 31, 2014 Weighted Average			Year Ended December 31, 2013 Weighted Average			Year Ended December 31, 2012 Weighted Average		
	Yield		Balance	Yield		Balance	Yield		Balance
Interest expense:									
Bank loans	1.33	%	$530,088	3.54	%	$961,742	1.83	%	$1,174,495
Middle market loans	4.49	%	$16,250	—	%	$—	—	%	$—
Commercial real estate loans	2.38	%	$685,324	2.15	%	$416,513	1.62	%	$458,032
CMBS-private placement	1.39	%	$49,757	1.72	%	$48,953	2.09	%	$47,533
RMBS	1.50	%	$11,510	N/A		N/A	N/A		N/A
Hedging instruments	5.32	%	$121,306	5.35	%	$123,999	5.13	%	$138,581
Securitized borrowings	15.29	%	$5,626	30.02	%	$18,568	8.79	%	$21,399
Convertible senior notes	7.66	%	$115,000	6.61	%	22,685	N/A		N/A
General	6.88	%	$51,548	4.65	%	$61,720	4.75	%	$65,148

Type of Security	Coupon Interest		Unamortized Deferred Debt Expense	Net Amortization	Interest Expense	Other	Total
Year Ended December 31, 2014:							
Bank loans	0.96	%	$22	$770	$6,564	$—	$7,334
Middle market loans	2.75	%	$—	—	806	—	806
Commercial real estate loans	1.78	%	$4,490	4,063	12,631	—	16,694
CMBS-private placement	1.37	%	$—	12	697	—	709
RMBS	1.15	%	$—	—	173	—	173
Hedging	5.08	%	$22	—	6,555	—	6,555
Securitized borrowings	—	%	$—	—	849	—	849
Convertible senior notes	6.00	%	$—	1,880	6,900	—	8,780
General	4.18	%	$343	200	3,373	—	3,573
Total interest expense				$6,925	$38,548	$—	$45,473
Year Ended December 31, 2013:							
Bank loans	1.34	%	$171	$6,131	$28,332	$—	$34,463
Middle market loans	—	%	$—	—	—	—	—
Commercial real estate loans	1.55	%	$2,554	2,209	6,834	—	9,043
CMBS-private placement	1.41	%	$12	151	680	—	831
RMBS	—	%	$—	—	—	—	—
Hedging	5.03	%	$171	—	6,751	—	6,751
Securitized borrowings	30.02	%	$—	—	5,531	—	5,531
Convertible Senior Notes	4.21	%	$—	138	1,342	—	1,480
General	—	%	$543	192	2,719	—	2,911
Total interest expense				$8,821	$52,189	$—	$61,010
Year Ended December 31, 2012:							
Bank loans	1.36	%	$7,102	$2,846	$18,935	$—	$21,781

Middle market loans	—	%	$—	—	—	—	—
Commercial real estate loans	1.08	%	$610	2,292	5,274	—	7,566
CMBS-private placement	1.52	%	$23	271	753	—	1,024
RMBS	—	%	$—	—	—	—	—
Hedging	4.97	%	$932	—	7,266	—	7,266
Securitized borrowings	14.4	%	$—	—	3,195	(1,202)	1,993
Convertible Senior Notes	—	%	$—	—	—	—	—
General	4.43	%	$734	65	3,097	—	3,162
Total interest expense				$5,474	$38,520	$(1,202)	$42,792

(Back to Index)

(Back to Index)

	Years Ended December 31, 2014	2013	Year to Year Dollar Change	Year to Year Percent Change
Interest expense:				
Bank loans	$7,334	$34,463	$(27,129)	(79)%
Middle market loans	806	—	806	100%
Commercial real estate loans	16,694	9,043	7,651	85%
CMBS-private placement	709	831	(122)	(15)%
RMBS	173	—	173	100%
Hedging instruments	6,555	6,751	(196)	(3)%
Securitized borrowings	849	5,531	(4,682)	(85)%
Convertible senior notes	8,780	1,480	7,300	493%
General	3,573	2,911	662	23%
Total interest expense	$45,473	$61,010	$(15,537)	(25)%

Year Ended December 31, 2014 as compared to Year Ended December 31, 2013

Aggregate interest expense decreased $15.5 million to $45.5 million for the year ended December 31, 2014. We attribute this increase to the following:

Bank loans. Interest expense on bank loans declined $27.1 million to $7.3 million for the year ended December 31, 2014. This was primarily due to a decrease in the weighted average note balance outstanding from $961.7 million to $530.1 million in our bank loan CLOs due to the call and liquidation of Apidos CDO I in October 2014 and Apidos CLO VIII and Whitney CLO in September 2013 and October 2013, respectively, which resulted in the paydown of all outstanding notes. In addition, Apidos CDO III and Apidos Cinco CDO reached the ends of their reinvestment periods; and, as a result, cash received from their collateral is being used to pay down the principal amounts of the CLOs' notes. The decrease from 3.54% to 1.33% in the weighted average cost of funds is attributable to the liquidations of both Apidos CLO VIII and Whitney CLO I in 2013, as these vehicles had higher costs of funds.

Middle market loans. In September 2014, we closed on a syndicated financing facility for our new middle market loan portfolio comprised of direct originations and syndicated loans. As of December 31, 2014, we had approximately $113.5 million outstanding on this facility. As we continue to focus on the growth of the middle market platform and its lending capabilities, we expect to expand the financing capacity of this facility in 2015.

Commercial real estate loans. Interest expense on commercial real estate loans increased $7.7 million to $16.7 million for the year ended December 31, 2014. This was primarily as a result of the consolidation of RCC CRE Notes 2013, a securitization that closed in December 2013, as well as the consolidation of RCC CRE 2014, a securitization that closed in July 2014 and the warehousing of originated loans to be sold into securitization in February 2015. These increases were partially offset by principal payoffs in Resource Real Estate Funding CDO 2006-1, or RREF CDO 2006-1, Resource Real Estate Funding CDO 2007-1, or RREF CDO 2007-1, and RCC CRE Notes 2013 as the underlying collateral paid down or paid off.

Securitized borrowings. Securitized borrowings expense decreased $4.7 million to $849,000 for the year ended December 31, 2014. This interest expense was related to our subordinated investments in Apidos CLO VIII and Whitney CLO I, which were liquidated in 2013. The current year's interest expense is primarily related to Moselle CLO, which was consolidated in 2014 and substantially liquidated in December 2014.

Convertible senior notes. Interest expense on convertible senior notes increased $7.3 million to $8.8 million for the year ended December 31, 2014. The current year interest expense represents the first full year of interest expense taken on our 6% convertible notes, as the convertible notes were originally issued in October 2013.

(Back to Index)

(Back to Index)

	Years Ended December 31, 2013	2012	Year to Year Dollar Change	Year to Year Percent Change
Interest expense:				
Bank loans	$34,463	$21,781	$12,682	58 %
Commercial real estate loans	9,043	7,566	1,477	20 %
CMBS-private placement	831	1,024	(193)	(19)%
Hedging instruments	6,751	7,266	(515)	(7)%
Securitized borrowings	5,531	1,993	3,538	178 %
Convertible senior notes	1,480	—	1,480	100 %
General	2,911	3,162	(251)	(8)%
Total interest expense	$61,010	$42,792	$18,218	43 %

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012

Aggregate interest expense increased $18.2 million to $61.0 million for the year ended December 31, 2013. We attribute this decrease to the following:

Interest expense on bank loans was $34.5 million for the year ended December 31, 2013 as compared to $21.8 million for the year ended December 31, 2012, an increase of $12.7 million. This increase resulted primarily from the increase in the weighted average yield to 3.54% for the year ended December 31, 2013 as compared to 1.83% for the year ended December 31, 2012 primarily due to an increase in expense related to Apidos CLO VIII and Whitney CLO I which was liquidated in September 2013 and October 2013, respectively. This accelerated the original issue discount and deferred issuance costs recorded when these CLOs were initially consolidated.

The increase in interest expense resulting from the increase in the weighted average yield was partially offset by a decrease in the weighted average balance of the related financings of $212.8 million to $961.7 million for the year ended December 31, 2013 as compared to $1.2 billion for the year ended December 31, 2012 due to the call and liquidation of Apidos CLO VIII and Whitney CLO I in September 2013 and October 2013, respectively, which resulted in the paydown of all outstanding notes. In addition, Apidos CDO I and Apidos CDO III reached the end of their reinvestment periods in prior years. During the year ended December 31, 2013, Apidos CDO I paid down $116.1 million in principal amount of its CDO notes and Apidos CDO III paid down $75.9 million in principal amount of its CDO notes.

Interest expense on CRE loans was $9.0 million for the year ended December 31, 2013, as compared to $7.6 million for the year ended December 31, 2012, an increase of $1.5 million as a result of increase in the weighted average yield to 2.15% for the year ended December 31, 2013 as compared to 1.62% for the year ended December 31, 2012 which was due primarily to note paydowns which increased the weighted average cost of these borrowings as the lower yield debt was repaid as required in the indenture agreements.

The increase in interest rate on commercial real estate loans was partially offset during the year ended December 31, 2013 by a decrease in the weighted average balance of debt of $41.5 million to $416.5 million from $458.0 million for the year ended December 31, 2012, primarily as a result of the debt amortization of Resource Real Estate Funding CDO 2006-1, or RREF CDO 2006-1, and Resource Real Estate Funding CDO 2007-1, or RREF CDO 2007-1, as they reached the end of their reinvestment periods in prior years. During the year ended December 31, 2013, the CDOs paid down a total of $129.2 million of notes.

Hedge expense decreased $515,000 to $6.8 million for the year ended December 31, 2013. The decrease in the hedging expense was primarily due to the scheduled amortization on swaps and, to a lesser extent, changes in LIBOR.

Securitized borrowings expense increased $3.5 million to $5.5 million for the year ended December 31, 2013. This interest expense is related to our subordinated investments in Apidos CLO VIII and Whitney CLO I. The interest expense is imputed using an estimated internal rate of return based on expected cash flows over the life of each CLO. The increase for the year ended December 31, 2013 was due to acceleration of expense as a result of the liquidation of these CLOs.

Interest expense on convertible senior notes was $1.5 million. In October 2013, we closed and issued $115.0 million aggregate principal amount of our 6.00% convertible senior notes due 2018.

(Back to Index)

(Back to Index)

Revenue
The following table sets forth information relating to our other revenue incurred for the periods presented (in thousands):

	Years Ended December 31, 2014	2013	Year to Year Dollar Change	Year to Year Percent Change
Revenue:				
Rental income	$8,441	$19,923	$(11,482)	(58)%
Dividend income	186	273	(87)	(32)%
Fee income	9,385	5,821	3,564	61%
Total revenue	$18,012	$26,017	$(8,005)	(31)%

Year Ended December 31, 2014 as compared to Year Ended December 31, 2013
Rental income. Rental income decreased $11.5 million to $8.4 million for the year ended December 31, 2014. This decrease was primarily related to the sale of a hotel property we owned in April 2014. We did not own any rental properties as of December 31, 2014, as we sold our last two remaining real estate properties--a multi-family property in Tennessee and an office property in California--in November 2014.
Fee income. Fee income increased $3.6 million to $9.4 million for the year ended December 31, 2014. The increase is primarily due to increased revenues and fees earned at PCM related to residential mortgage loan originations as that operation expanded.
The following table sets forth information relating to our other revenue incurred for the periods presented (in thousands):

	Years Ended December 31, 2013	2012	Year to Year Dollar Change	Year to Year Percent Change
Revenue:				
Rental income	$19,923	$11,463	$8,460	74%
Dividend income	273	69	204	296%
Fee income	5,821	7,068	(1,247)	(18)%
Total revenue	$26,017	$18,600	$7,417	40%

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012
Rental income. Rental income increased $8.5 million to $19.9 million for the year ended December 31, 2013. This increase is related to the acquisition of two properties in 2012, a multi-family property in Tennessee and a hotel property in Florida (a full year of whose results were reflected in 2012).
Fee income. Fee income decreased $1.2 million to $5.8 million for the year ended December 31, 2013. This decrease is primarily related to the consolidation of Whitney CLO I in October 2012 due to our acquisition of a controlling interest. As a result of consolidation, the related fee income eliminates in consolidation.

(Back to Index)

(Back to Index)

Operating Expenses

The following table sets forth information relating to operating expenses we incurred for the periods presented (in thousands):

	Years Ended December 31, 2014	2013	Year to Year Dollar Change	Year to Year Percent Change
Operating expenses:				
Management fees – related party	$13,584	$14,220	$(636)	(4)%
Equity compensation – related party	6,566	10,472	(3,906)	(37)%
Rental operating expense	5,443	14,062	(8,619)	(61)%
General and administrative - Corporate	15,263	12,304	2,959	24%
General and administrative - PCM	19,598	2,203	17,395	790%
Depreciation and amortization	2,737	3,855	(1,118)	(29)%
Income tax benefit	(2,212)	(1,041)	(1,171)	112%
Net impairment losses recognized in earnings	—	863	(863)	(100)%
Provision for loan losses	1,804	3,020	(1,216)	(40)%
Total operating expenses	$62,783	$59,958	$2,825	5%

Year Ended December 31, 2014 as compared to the Year Ended December 31, 2013

Management fees – related party. Management fee-related party decreased $636,000 to $13.6 million for the year ended December 31, 2014. This expense represents compensation in the form of base management fees and incentive management fees pursuant to our management agreement as well as fees to the manager of our structured note portfolio. The changes are described below:

- Incentive management fees to our Manager, which are based upon the excess of adjusted operating earnings, as defined in the management agreement, over a variable base rate, decreased $1.9 million (100%) for the year ended December 31, 2014. The decrease in this fee was primarily the result of realized losses on the charge-off of assets in our CRE and Apidos portfolios. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter.
- Base management fees increased by $1.5 million (13%) for the year ended December 31, 2014. This increase was due to increased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of the receipt of $49.5 million of proceeds from sales of common stock through our Dividend Reinvestment and Stock Purchase Plan, or DRIP, from January 1, 2013 through December 31, 2014 as well as the receipt of $114.5million from the proceeds of our April 2013 secondary common stock offering. In addition, we issued approximately 393,000 shares, 6.7 million shares and 4.8 million shares of Series A preferred stock, Series B preferred stock, and Series C preferred stock respectively, from January 1, 2013 through December 31, 2014, for which we received $229.6 million of proceeds.

Equity compensation - related party. Equity compensation - related party decreased $3.9 million to $6.6 million for the year ended December 31, 2014. These expenses relate to the amortization of annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to employees of Resource America who provide investment management services to us through our Manager as well as employees through our recently acquired residential mortgage company subsidiary. The decrease in expense was primarily the result of vestings of restricted stock as well as a decrease in our stock price and its impact on our quarterly remeasurement of the value of unvested stock of non-employees during the year ended December 31, 2014.

Rental operating expense. Rental operating expense decreased $8.6 million to $5.4 million for the year ended December 31, 2014. This decrease is primarily related to the sale in April 2014 of our hotel property and the sale in September 2013 of a multi-family apartment building owned by us.

(Back to Index)

(Back to Index)

General and administrative expense - Corporate. General and administrative expense - Corporate increased $3.0 million to $15.3 million for the year ended December 31, 2014. This increase is primarily the result of the following: an increase of administrative expenses due to the sale of our hotel property in April 2014, an increase in headcount and a corresponding increase in payroll reimbursed to our manager, and an increase of additional professional services being incurred.

General and administrative expense - PCM. General and administrative expense - PCM increased $17.4 million to $19.6 million for the year ended December 31, 2014. The increase principally reflects our ownerships of PCM for a full year in 2014 as compared to two months in 2013. Additionally, the business incurred increased compensation costs to support it's strategic growth plan.

Depreciation and amortization. Depreciation and amortization decreased $1.1 million to $2.7 million for the year ended December 31, 2014. The decrease was primarily the result of the sale of a multi-family property in September 2013 and the reclassification of a hotel property as of December 31, 2014 and a multifamily property as of March 31, 2014, to property held-for-sale. At the time a property is reclassified from an investment in real estate to a property held-for-sale, we cease depreciation of the asset.

Income tax benefit. Income tax benefit increased $1.2 million to a benefit of $2.2 million for the year ended December 31, 2014. The increase in income tax benefit is primarily attributable to accumulated operating losses in our new residential mortgage origination business for the year and, to a lesser extent due, to mark downs on the valuations of securities in our trading portfolio.

Provision for loan losses. Provision for loan losses decreased $1.2 million to $1.8 million for the year ended December 31, 2014. The following table summarizes the information relating our loan losses for the periods presented (in thousands):

	Years Ended December 31,		Year to Year Dollar Change	Year to Year Percent Change
	2014	2013		
CRE loan portfolio	$(3,758)	$2,686	$(6,444)	(240)%
Bank loan portfolio	4,173	312	3,861	1,238%
Middle market loan portfolio	92	22	70	318%
Loan receivable related party	1,297	—	1,297	100%
Total provision for loan losses	$1,804	$3,020	$(1,216)	(40)%

CRE loan portfolio provision - The principal reason for the increase in recoveries during the year ended December 31, 2014 as compared to the year ended December 31, 2013 was that we reversed $4.5 million of allowance on a previously reserved position because the mezzanine loan was paid in full.

Bank loan portfolio provision - The bank loan provision increased by $3.9 million for the year ended December 31, 2014 to $4.2 million. The principal reason for the increased provision was due to the recognition of losses on positions that were subsequently sold for credit reasons as well as losses recognized due to the liquidation of Apidos CLO I. We record all such losses are recorded as an adjustment to the allowance for loan and lease losses, effectively increasing the provision for loan and lease losses.

Loan receivable related party provision - The loan receivable - related party provision increased by $1.3 million for the year ended December 31, 2014 to $1.3 million due to the recognition of $936,000 of losses directly related to the leases that serve as collateral for this loan and an additional impairment of $361,000 recognized upon assumption of the lease collateral as payment in full of the loan on December 31, 2014. The additional impairment of $361,000 represents the difference between the fair value of the net lease assets assumed and the cost basis of the related-party loan recorded on our books as of December 31, 2014.

(Back to Index)

(Back to Index)

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

	Years Ended December 31, 2013	2012	Year to Year Dollar Change	Year to Year Percent Change
Operating expenses:				
Management fees – related party	$14,220	$18,512	$(4,292)	(23)%
Equity compensation – related party	10,472	4,636	5,836	126%
Rental operating expense	14,062	8,046	6,016	75%
General and administrative - Corporate	12,304	9,773	2,531	26%
General and administrative - PCM	2,203	—	2,203	100%
Depreciation and amortization	3,855	5,885	(2,030)	(34)%
Income tax (benefit) expense	(1,041)	14,602	(15,643)	(107)%
Net impairment losses recognized in earnings	863	180	683	379%
Provision for loan losses	3,020	16,818	(13,798)	(82)%
Total operating expenses	$59,958	$78,452	$(18,494)	(24)%

Year Ended December 31, 2013 as compared to the Year Ended December 31, 2012

Management fees - related party. Management fees - related party decreased $4.3 million to $14.2 million for the year ended December 31, 2013. These expenses represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement as well as fees to the manager of our structured note portfolio. The changes are described below:

- Incentive management fees to our Manager, which are based upon the excess of adjusted operating earnings, as defined in the management agreement, over a variable base rate, decreased $4.0 million (68%) to $1.9 million for the year ended December 31, 2013 from $6.0 million for the year ended December 31, 2012. The decrease in this fee was primarily the result of realized losses on the charge-off of assets in our CRE and Apidos portfolios. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter.
- Base management fees increased by $3.2 million to $11.6 million for the year ended December 31, 2013 as compared to $8.3 million for the year ended December 31, 2012. This increase was due to increased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of the receipt of $92.2 million of proceeds from the sales of common stock through our Dividend Reinvestment and Stock Purchase Plan, or DRIP, from January 1, 2012 through December 31, 2013 as well as the receipt of $55.6 million from the proceeds from our September 2012 secondary common stock offering and the receipt of $114.5 million from the proceeds of our April 2013 secondary common stock offering. In addition, we had two issuances of preferred stock. First, in June 2012 we sold $6.0 million 8.5% Series A cumulative preferred stock, or Series A preferred stock. Then in October 2012, we issued $24.2 million of 8.25% Series B cumulative preferred stock, or Series B preferred stock. We also entered into at-the-market sales agreements and sold $9.9 million of Series A and $35.6 million of Series B preferred stock through December 31, 2013, respectively.
- Incentive management fees related to our structured finance manager decreased by $4.1 million (96%) to $158,000 for the year ended December 31, 2013 as compared to $4.2 million for the year ended December 31, 2012. The decrease in fees is primarily related to the sale of 12 securities in September 2012, resulting in fewer assets earning subordinated payments as well as the decrease in the remaining market value on these securities due to a downturn in the market for these types of assets during the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Equity compensation - related party. Equity compensation - related party increased $5.8 million to $10.5 million for the year ended December 31, 2013. These expenses relate to the amortization of annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to employees of Resource America who provide investment management services to us through our Manager as well as employees through our recently acquired residential mortgage company subsidiary. The increase in expense was primarily the result of the issuance of new grants during 2013 and

(Back to Index)

(Back to Index)

2012 as well as the increase in our stock price and its impact on our quarterly remeasurement of the value of unvested stock of non-employees.

Rental operating expense. Rental operating expense increased $6.0 million to $14.1 million for the year ended December 31, 2013 and is primarily related to having, in 2013, a full year operations of a hotel property we acquired by conversion of a loan to equity in September 2012. This hotel is held for sale at December 31, 2013.

General and administrative expense - Corporate. General and administrative expense - Corporate increased $2.5 million to $12.3 million for the year ended December 31, 2013. The increase is primarily the result of the following combination of factors:

- an increase of $660,000 related to the reimbursement of office overhead, travel costs and hiring costs for loan origination efforts based in various locations;
- an increase of $304,000 primarily related to the payment of fees to the investment committee of our board of directors for their services. We resumed paying these fees in April 2012. In addition, two additional board members were added in March 2013 and June 2013; and
- an increase of $400,000 in payroll expense due to the hiring of additional accounting personnel.

General and administrative expense - PCM. General and administrative expense - PCA was $2.2 million and is related to the acquisition of PCA, a mortgage origination business in October 2013.

Depreciation and amortization. Depreciation and amortization decreased $2.0 million to $3.9 million for the year ended December 31, 2013. The decrease was the result of the reclassification as held-for-sale of one property in the third quarter of 2013. At the time of the reclassification, we ceased depreciation of the asset. In addition, amortization on our intangible assets decreased as a result of the liquidation of one of our related CLOs in January 2013 for which the majority of expense was recognized in December 2012 and as a result of the consolidation of a CLO which caused the amortization of the related intangible asset to be accelerated into the fourth quarter of 2012.

Income tax expense (benefit). Income tax expense (benefit) decreased $15.6 million to a benefit of $1.0 million for the year ended December 31, 2013. The decrease in income tax expense is primarily attributable to the liquidation of Apidos CLO VIII and Whitney CLO I beginning in September 2013 and October 2013, respectively. The liquidation caused acceleration of note discount and deferred debt amortization as well as accelerated interest expense on subordinated notes. In addition, we had fewer realized gains on sales in our trading portfolio during the year ended December 31, 2013 after selling 12 securities in September 2012 and realizing gains then.

Provision for loan losses. Our provision for loan and lease losses decreased $13.8 million to $3.0 million for the year ended December 31, 2013. The following table summarizes the information relating our loan losses for the periods presented (in thousands):

	Years Ended December 31,		Year to Year Dollar Change	Year to Year Percent Change
	2013	2012		
CRE loan portfolio	$2,686	$5,225	$(2,539)	(49)%
Bank loan portfolio	312	11,593	(11,281)	(97)%
Total provision for loan losses	$2,998	$16,818	$(13,820)	(82)%

CRE Loan Portfolio - The CRE loan provision decreased $2.5 million for the year ended December 31, 2013 to $2.7 million. The principal reason for the decrease was related to three positions for which we took provisions during the year ended December 31, 2012. The positions had a total par value of $41.8 million and were written down to $37.3 million for a weighted average write down percentage of 10.9% of par. During the year ended December 31, 2013, we only took a provision on one previously impaired loan due to further credit deterioration of the borrower.

Bank Loan Portfolio - The bank loan provision decreased by $11.3 million for the year ended December 31, 2013 to $312,000 as compared to $11.6 million for the year ended December 31, 2012. The principal reason for the decrease for the year ended December 31, 2013 was due to improved credit conditions as well as the sales and payoffs of five loans in the general reserve and two impaired loans that were sold and written off during the year ended December 31, 2013. All five loans had been reserved in prior periods.

(Back to Index)

(Back to Index)

Other Revenue (Expense)

The following table sets forth information relating to our other income (expense) incurred for the periods presented (in thousands):

	Years Ended December 31, 2014	2013	Year to Year Dollar Change	Year to Year Percent Change
Other Revenue (Expense):				
Equity in earnings of unconsolidated subsidiaries	$4,767	$949	$3,818	402 %
Net realized gain on sales of investment securities available-for-sale and loans	15,283	9,637	5,646	59 %
Net realized and unrealized (loss) gain on investment securities, trading	(2,818)	(324)	(2,494)	770 %
Unrealized gain (loss) and net interest income on linked transactions, net	7,850	(3,841)	11,691	(304)%
Loss on reissuance of debt	(4,442)	—	(4,442)	100 %
Gain on sale of real estate	6,127	16,616	(10,489)	(63)%
Other income (expense)	(1,262)	391	(1,653)	(423)%
Total other revenue	$25,505	$23,428	$2,077	9 %

Year Ended December 31, 2014 as compared to Year Ended December 31, 2013

Equity in earnings of unconsolidated subsidiaries. Equity in earnings of unconsolidated subsidiaries increased $3.8 million to $4.8 million for the year ended December 31, 2014. This increase in earnings was primarily related to $3.5 million of gains on the sale of properties in which we owned equity interests in a real estate joint venture, and we also recognized $2.0 million of income related to our investment in CVC Global Opportunities Fund, L.P. as compared to $1.2 million for 2013.

Net realized gain on sales of investment securities available-for-sale and loans. Net realized gains on investment securities available-for-sale and loans increased $5.6 million to $15.3 million for for the year ended December 31, 2014. The current year balance is comprised of gains of $2.9 million related to the liquidation of Apidos CLO I; gains of $4.2 million recognized on the sale of available-for-sale security positions in our newly acquired investment security portfolio held by our consolidated subsidiary RCM Global, LLC; net gains on sales of loans and servicing income at our residential mortgage loan originator of $9.3 million and net gains of $1.3 million on our foreign exchange currency contracts. These gains are partially offset by a realized loss on a TBA (to-be-announced security) hedge contract on a portfolio of jumbo loans held in one of our qualified REIT subsidiaries, realized losses on sales of CMBS securities during the year of $1.6 million and realized losses on our investments in European structured securities of $2.2 million.

Net realized and unrealized (loss) gain on investment securities, trading. Net realized and unrealized (loss) gain on investment securities, trading decreased $2.5 million to a loss of $2.8 million during the year ended December 31, 2014. The current year balance is comprised of a net loss of $3.4 million in our trading portfolio offset by a net gain of $600,000 from Pelium Capital, our consolidated subsidiary that invests in structured securities classified as trading securities.

Unrealized gain (loss) and net interest income on linked transactions, net. Unrealized gain (loss) and net interest income on linked transactions, net, increased $11.7 million to a loss of $7.9 million for the year ended December 31, 2014. The amounts are related to our CMBS securities that are purchased with repurchase agreements with the same counterparty from whom the securities were purchased. These transactions are entered into contemporaneously or in contemplation of each other and are presumed not to meet sale accounting criteria. We account for these transactions on a net basis and record a forward purchase commitment to purchase securities (each, a "linked transaction") at fair value.

Loss on reissuance of debt. Loss on reissuance of debt was $4.4 million for the year ended December 31, 2014. The transactions that give rise to the recognition of a loss on the reissuance of debt resulted from the reissuance of previously repurchased senior and junior notes in our consolidated variable interest entities in the open market. These senior and junior notes were originally repurchased at discounts to par and represent an opportunity to provide us strategic financing at beneficial rates upon reissuance. At the date these notes were repurchased, a gain, representative of the difference between the repurchase price and the par value of the note, was recognized. Because these same notes were reissued during the year ended December 31, 2014, at a price less than par, an unrealized loss equal to the difference between the reissued price and the par value of the note was recognized in current earnings.

(Back to Index)

(Back to Index)

Gain on sale of real estate. The gain on the sale of real estate decreased $10.5 million to $6.1 million and is related to the sale of our remaining three properties for a combined gain of $6.1 million as compared to a gain of $16.6 million from the sale of a multi-family apartment building in 2013.

Other income (expense). Other income (expense) decreased $1.7 million to a loss of $1.3 million primarily related to the consolidation of LCF as a result of our additional investment in and acquisition of a controlling financial interest in the company during the first quarter of 2014.

The following table sets forth information relating to our other income (expense) incurred for the periods presented (in thousands):

	Years Ended December 31, 2013	2012	Year to Year Dollar Change	Year to Year Percent Change
Other Revenue (Expense):				
Equity in earnings (losses) of unconsolidated subsidiaries	$949	$(2,709)	$3,658	(135)%
Net realized gain on sales of investment securities available-for-sale and loans	9,637	4,106	5,531	135 %
Net realized and unrealized (loss) gain on investment securities, trading	(324)	12,435	(12,759)	(103)%
Unrealized (loss) gain and net interest income on linked transactions, net	(3,841)	728	(4,569)	(628)%
Gain on extinguishment of debt	—	16,699	(16,699)	(100)%
Gain on sale of real estate	16,616	—	16,616	100 %
Other income	391	2,498	(2,107)	(84)%
Total other revenue	$23,428	$33,757	$(10,329)	(31)%

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012

Equity in earnings (losses) of unconsolidated subsidiaries. Equity in earnings (losses) of unconsolidated subsidiaries increased $3.7 million for the year ended December 31, 2013. This increase in earnings was primarily related to our investment in LCC for which we realized a loss of $183,000 for the year ended December 31, 2013 as compared to a loss of $3.3 million for the year ended December 31, 2012. In addition, we recognized $1.2 million of income related to our investment in CVC Global Credit Opportunities Fund, L.P. There was no such investment during the year ended December 31, 2012.

Net realized gains on investment securities available-for-sale and loans. Net realized gains on investment securities available-for-sale and loans increased $5.5 million to $9.6 million for the year ended December 31, 2013. The increase for the year ended December 31, 2013 is primarily due to gains of $5.0 million as a result of the liquidation of Apidos CLO VIII in October 2013 as well as gains of $2.2 million on the sales of residential mortgage loans, a business we acquired in October 2013.

Net realized and unrealized gain on investment securities, trading. Net realized and unrealized gain on investment securities, trading decreased $12.8 million to a loss of $324,000 during the year ended December 31, 2013 primarily as a result of a sale of nine securities in 2013 and 12 securities in September 2012, which has significantly reduced the balance of investments held in trading securities. The remaining portfolio has decreased substantially as we held eight positions and 13 positions at December 31, 2013 and December 31, 2012, respectively, and as a result, there is less opportunity to realize gains. In addition, marks decreased at December 31, 2013 as a result of a downturn in the market for these types of securities.

Unrealized (loss) gain and net interest income on linked transactions, net. Unrealized (loss) gain and net interest income on linked transactions, net increased $4.6 million to a loss of $3.8 million. The increase in expense for the year ended December 31, 2013 resulted from the change in market value of our linked transactions with longer duration to maturity at December 31, 2013 as compared to December 31, 2012.

Gain on sale of real estate. Gain on sale of real estate was $16.6 million for the year ended December 31, 2013 as a result of the sale of a multi-family apartment building. During the three months ended June 30, 2013, we entered into a listing agreement for this property. The sale settled on September 30, 2013.

(Back to Index)

(Back to Index)

Gain on extinguishment of debt. There was no gain on the extinguishment of debt during the year ended December 31, 2013 as compared to a gain of $16.7 million recognized during the year ended December 31, 2012 resulting from the repurchase of a portion of the debt issued by RREF CDO 2006-1, RREF CDO 2007-1 and Apidos CDO I at discounts during the period. The notes, issued at par, were bought back as an investment by us at a weighted average price of 88.7%.

Other income. Other income decreased $2.1 million to $391,000 as a result of recognizing a gain on consolidation of $2.5 million during the year ended December 31, 2012 related to the consolidation of Whitney CLO I as a result of our acquisition of a controlling financial interest where the net fair value of the assets acquired exceeded our purchase price.

Summary.

Our total assets at December 31, 2014 were $2.7 billion as compared to $2.2 billion at December 31, 2013. The increase in total assets was principally due to continued expansion of our loan portfolio, slightly offset by sale of our investments in real estate and liquidation of Apidos CLO I and Moselle CLO.

Investment Portfolio

The table below summarizes the amortized cost and net carrying amount of RSO's investment portfolio as of December 31, 2014 and December 31, 2013 classified by interest rate and by asset type (in thousands, except percentages):

	Amortized cost	Net Carrying Amount	Percent of portfolio		Weighted average coupon
As of December 31, 2014					
Loans Held for Investment:					
Commercial real estate loans [1]:					
Whole loans	$1,263,592	$1,259,834	52.26	%	5.33%
B notes	16,072	16,017	0.66	%	8.68%
Mezzanine loans	67,366	67,136	2.78	%	7.44%
Bank loans	330,648	330,078	13.69	%	3.70%
Middle market loans	250,113	250,113	10.38	%	8.35%
Residential mortgage loans	2,802	2,802	0.12	%	4.57%
Loans receivable-related party	1,277	1,277	0.05	%	4.62%
	1,931,870	1,927,257	79.94	%	
Loans held for sale [2]:					
Bank loans	282	282	0.01	%	3.76%
Residential mortgage loans	111,454	111,454	4.62	%	4.04%
	111,736	111,736	4.63	%	
Investments in Available-for-Sale Securities:					
CMBS-private placement	168,669	170,405	7.07	%	4.78%
CMBS-linked transactions	14,900	15,367	0.64	%	5.44%
RMBS	29,814	30,751	1.28	%	3.17%
ABS	55,617	72,157	2.99	%	N/A [3]
Corporate Bonds	2,415	2,407	0.10	%	4.88%
	271,415	291,087	12.08	%	
Investment Securities-Trading:					
Structured notes	23,319	20,786	0.86	%	N/A [3]
RMBS	1,896	—	—	%	N/A [3]
	25,215	20,786	0.86	%	
Other (non-interest bearing):					
Property available for sale	180	180	0.01	%	N/A
Investment in unconsolidated entities	59,827	59,827	2.48	%	N/A

	60,007	60,007	2.49	%
Total Investment Portfolio	$2,400,243	$2,410,873	100.00	%

(Back to Index)

(Back to Index)

	Amortized cost	Net Carrying Amount	Percent of portfolio		Weighted average coupon
As of December 31, 2013					
Loans Held for Investment:					
Commercial real estate loans (1):					
Whole loans	$745,789	$746,440	42.01	%	5.47%
B notes	16,205	16,031	0.90	%	8.68%
Mezzanine loans	64,317	50,611	2.85	%	6.70%
Bank loans	515,393	512,002	28.82	%	3.85%
Middle market loans	39,780	39,780	2.24	%	8.37%
Residential mortgage loans	1,849	1,849	0.10	%	4.19%
Loans receivable-related party	6,966	6,966	0.39	%	8.35%
	1,390,299	1,373,679	77.31	%	
Loans held for sale (2):					
Bank loans	2,377	2,377	0.13	%	6.43%
Middle market loans	4,473	4,473	0.25	%	7.75%
Residential mortgage loans	15,066	15,066	0.85	%	4.19%
	21,916	21,916	1.23	%	
Investments in Available-for-Sale Securities:					
CMBS-private placement	185,178	180,718	10.17	%	4.89%
CMBS-linked transactions	35,736	30,066	1.69	%	3.93%
ABS	25,406	26,656	1.50	%	N/A (3)
Corporate Bonds	2,517	2,463	0.14	%	8.05%
	248,837	239,903	13.50	%	
Investment Securities-Trading:					
Structured notes	8,057	11,107	0.63	%	N/A (3)
RMBS	1,919	451	0.03	%	N/A (3)
	9,976	11,558	0.66	%	
Other (non-interest bearing):					
Property available for sale	25,346	25,346	1.43	%	—%
Investment in unconsolidated entities	29,778	29,778	1.68	%	—%
Investment in Real Estate	74,438	74,438	4.19	%	—%
	129,562	129,562	7.30	%	
Total Investment Portfolio	$1,800,590	$1,776,618	100.00	%	

(1) Net carrying amount includes an allowance for loan losses of $4.0 million at December 31, 2014, allocated as follows: whole loans $3.8 million, B notes $55,000 and mezzanine loans $231,000. Net carrying amount includes an allowance for loan losses of $10.4 million at December 31, 2013, allocated as follows: whole loans $9.7 million, B notes $174,000 and mezzanine loans $559,000

(2) Loans held for sale are carried at the lower of cost or fair market value. Amortized cost is equal to fair value.

(3) There is no stated rate associated with these securities.

Commercial Mortgage-Backed Securities-Private Placement. In the aggregate, we purchased our CMBS-private placement portfolio at a net discount. At December 31, 2014 and 2013, the remaining discount to be accreted into income over the remaining lives of the securities was $3.6 million and $7.2 million, respectively. At December 31, 2014 and 2013, the remaining premium to be amortized into income over the remaining lives of the securities was $619,000 and $645,000, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair value.

During the years ended December 31, 2014, 2013, and 2012 we recognized other-than-temporary impairment losses of $0, $328,000 and $42,000, respectively, on positions that supported our CMBS investments. Securities classified as available-for-sale have decreased on a net basis as of December 31, 2014 as compared to December 31, 2013 primarily due to paydowns in 2014. We perform an on-going review of third-party reports and updated financial data on the underlying property financial information to analyze current and projected loan performance. Rating agency downgrades are considered with respect to our income approach when determining other-than-temporary impairment and, when inputs are stressed, the resulting projected cash flows reflect a full recovery of principal.

(Back to Index)

(Back to Index)

The following table summarizes our CMBS-private placement at fair value (in thousands, except percentages):

	Fair Value at December 31, 2013	Net Purchases	Upgrades/Downgrades	Paydowns	MTM Change on Same Ratings	Fair Value at December 31, 2014
Moody's Ratings Category:						
Aaa	$49,837	$7,575	$ (2,328)	$(26,706)	$2,257	$30,635
Aa1 through Aa3	5,356	—	3,223	(4,554)	1,648	5,673
A1 through A3	14,611	—	(723)	(677)	(2,270)	10,941
Baa1 through Baa3	38,711	(8,689)	(2,500)	(1,537)	(2,537)	23,448
Ba1 through Ba3	13,738	10,889	(4,721)	—	(1,535)	18,371
B1 through B3	13,381	8,936	8,573	—	2,599	33,489
Caa1 through Caa3	14,744	3,678	(4,631)	—	1,792	15,583
Ca through C	8,614	(3,678)	779	(213)	6,176	11,678
Non-Rated	21,726	838	2,328	(803)	(3,502)	20,587
Total	$180,718	$19,549	$ —	$(34,490)	$4,628	$170,405
S&P Ratings Category:						
AAA	$53,239	$754	$ —	$(29,109)	$(2,781)	$22,103
A+ through A-	7,999	—	—	—	(137)	7,862
BBB+ through BBB-	14,303	—	3,485	(803)	934	17,919
BB+ through BB-	32,795	2,491	2,458	—	(1,358)	36,386
B+ through B-	33,162	3,850	(5,943)	—	1,639	32,708
CCC+ through CCC-	12,176	9,989	(1,161)	—	3,297	24,301
D	1,980	—	1,161	(213)	3,145	6,073
Non-Rated	25,064	2,465	—	(4,365)	(111)	23,053
Total	$180,718	$19,549	$ —	$(34,490)	$4,628	$170,405

Investment Securities, Trading. The following table summarizes our structured notes and RMBS securities, which are classified as investment securities, trading, and are carried at fair value (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
As of December 31, 2014:				
Structured notes	$22,876	$1,098	$(3,188)	$20,786
RMBS	1,896	—	(1,896)	—
Total	$24,772	$1,098	$(5,084)	$20,786
As of December 31, 2013:				
Structured notes	$8,057	$4,050	$(1,000)	$11,107
RMBS	1,919	—	(1,468)	451
Total	$9,976	$4,050	$(2,468)	$11,558

We purchased 38 securities and sold nine securities during the year ended December 31, 2014, for a net realized gain of $3.0 million. We held 37 and eight investment securities, trading as of December 31, 2014 and 2013, respectively.

(Back to Index)

(Back to Index)

Real Estate Loans. The following table is a summary of the loans in our commercial real estate loan portfolio at the dates indicated (in thousands):

Description	Quantity	Amortized Cost	Contracted Interest Rates	Maturity Dates [3]
As of December 31, 2014:				
Whole loans, floating rate [1] [4] [6]	73	$1,263,592	LIBOR plus 1.75% to LIBOR plus 15.00%	May 2015 to February 2019
B notes, fixed rate	1	16,072	8.68%	April 2016
Mezzanine loans, floating rate	1	12,558	LIBOR plus 15.32%	April 2016
Mezzanine loans, fixed rate [7]	3	54,808	0.50% to 18.71%	January 2016 to September 2019
Total [2]	78	$1,347,030		
As of December 31, 2013:				
Whole loans, floating rate [1] [5] [6]	51	$745,789	LIBOR plus 2.68% to LIBOR plus 12.14%	March 2014 to February 2019
B notes, fixed rate	1	16,205	8.68%	April 2016
Mezzanine loans, floating rate	1	12,455	LIBOR plus 15.32%	April 2016
Mezzanine loans, fixed rate [7]	3	51,862	0.50% to 18.72%	September 2014 to September 2019
Total [2]	56	$826,311		

(1) Whole loans had $105.1 million and $13.7 million in unfunded loan commitments as of December 31, 2014 and 2013, respectively. These unfunded commitments are advanced as the borrowers formally request additional funding as permitted under the loan agreement and any necessary approvals have been obtained.

(2) The total does not include an allowance for loan loss of $4.0 million and $10.4 million as of December 31, 2014 and 2013, respectively.

(3) Maturity dates do not include possible extension options that may be available to the borrowers.

(4) Floating rate whole loans include a combined $12.0 million mezzanine component of two whole loans, which have a fixed rate of 12.0%, and a $4.2 million mezzanine component of two whole loans that have a fixed rate of 15% at December 31, 2014.

(5) Floating rate whole loans include a combined $11.4 million mezzanine component of two whole loans, which have a fixed rate of 12.0% as of December 31, 2013.

(6) Floating rate whole loans include a $799,000 junior mezzanine tranche of a whole loan that has a fixed rate of 10.0% as of December 31, 2014 and December 31, 2013.

(7) Fixed rate mezzanine loans include a mezzanine loan that was modified into two tranches, which both currently pay interest at 0.50%. In addition, the subordinate tranche accrues interest at LIBOR plus 18.50% which is deferred until maturity.

Bank Loans. At December 31, 2014, our consolidated securitizations, Apidos CDO I, Apidos CDO III and Apidos Cinco CDO held a total of $323.0 million of bank loans at fair value. The bank loans held by the securitizations secure the CDO notes they issued and are not available to satisfy the claims of our creditors. The aggregate fair value of bank loans held decreased by $195.0 million over their holdings at December 31, 2013. This decrease was primarily due to the liquidation of Apidos CDO I during the quarter and year ended December 31, 2014.

(Back to Index)

(Back to Index)

The following table summarizes our bank loan investments (in thousands):

	December 31, 2014		December 31, 2013	
	Amortized cost	Fair Value (1)	Amortized cost	Fair Value (1)
Moody's ratings category:				
Baa1 through Baa3	$16,205	$16,056	$10,885	$10,936
Ba1 through Ba3	173,118	169,207	263,589	265,945
B1 through B3	129,863	126,774	205,243	205,490
Caa1 through Caa3	5,234	4,915	16,360	14,799
Ca	—	—	667	332
No rating provided	6,510	6,256	21,026	20,600
Total	$330,930	$323,208	$517,770	$518,102
S&P ratings category:				
BBB+ through BBB-	$48,582	$48,110	$46,201	$46,562
BB+ through BB-	139,544	134,434	222,270	222,432
B+ through B-	132,732	131,105	214,505	216,680
CCC+ through CCC-	3,105	3,096	11,622	11,372
CC+ through CC-	—	—	—	—
C+ through C-	—	—	—	—
D	459	208	2,251	723
No rating provided	6,508	6,255	20,921	20,333
Total	$330,930	$323,208	$517,770	$518,102
Weighted average rating factor	1,786		1,917	

(1) The bank loan portfolio's fair value is determined using dealer quotes.

Middle Market Loans. At December 31, 2014, Northport our middle market lending platform, held a total of $247.8 million of middle market loans at fair value. The middle market loans held by Northport TRS, LLC serve to collateralize its senior secured revolving credit agreement. The aggregate fair value of bank loans held increased by $202.9 million over their holdings at December 31, 2013. This increase was primarily due to increased originations and purchase of production in our middle market lending platform.

The following table summarizes our middle market loans (in thousands):

	December 31, 2014		December 31, 2013	
	Amortized cost	Fair Value (1)	Amortized cost	Fair Value (1)
Moody's ratings category:				
Baa1 through Baa3	$—	$—	$—	$—
Ba1 through Ba3	—	—	—	—
B1 through B3	—	—	11,751	12,027
Caa1 through Caa3	62,053	60,126	7,863	7,903
Ca	—	—	—	—
No rating provided	188,060	187,655	24,639	24,928
Total	$250,113	$247,781	$44,253	$44,858
S&P ratings category:				
BBB+ through BBB-	$—	$—	$—	$—
BB+ through BB-	—	—	1,976	2,010
B+ through B-	4,959	3,798	14,202	14,455
CCC+ through CCC-	49,665	48,988	3,437	3,466
CC+ through CC-	—	—	—	—

C+ through C-	—	—	—	—
D	—	—	—	—
No rating provided	195,489	194,995	24,638	24,927
Total	$250,113	$247,781	$44,253	$44,858
Weighted average rating factor	6,500		1,707	

(Back to Index)

(Back to Index)

(1) The middle market loan portfolio's fair value is determined using dealer quotes.

The following table provides information as to the lien position and status of our bank and middle market loans, which we consolidate (in thousands):

	Amortized Cost					
	Apidos I	Apidos III	Apidos Cinco	Whitney CLO I	Northport LLC (1)	Total
As of December 31, 2014:						
Loans held for investment:						
First lien loans	$153	$80,196	$245,377	$—	$149,287	$475,013
Second lien loans	—	—	3,572	—	100,826	104,398
Third lien loans	—	—	—	—	—	—
Defaulted first lien loans	—	—	—	—	—	—
Defaulted second lien loans	—	971	379	—	—	1,350
Total	153	81,167	249,328	—	250,113	580,761
First lien loans held for sale at fair value	—	—	282	—	—	282
Total	$153	$81,167	$249,610	$—	$250,113	$581,043
As of December 31, 2013:						
Loans held for investment:						
First lien loans	$79,483	$126,890	$296,368	$72	$31,974	$534,787
Second lien loans	—	—	1,139	—	7,805	8,944
Third lien loans	3,020	2,475	2,463	—	—	7,958
Defaulted first lien loans	1,206	1,124	486	—	—	2,816
Defaulted second lien loans	334	334	—	—	—	668
Total	84,043	130,823	300,456	72	39,779	555,173
First lien loans held for sale at fair value	537	651	1,189	—	4,473	6,850
Total	$84,580	$131,474	$301,645	$72	$44,252	$562,023

(1) In September 2014 Resource TRS LLC and RCC Commercial contributed their interests in certain directly originated and syndicated bank loans to form Northport LLC. At December 31, 2013 Resource TRS LLC and RCC Commercial held a total of $34.0 million and $10.3 million of bank loans, respectively at amortized cost.

Asset-backed securities. At December 31, 2014, we held a total of $11.8 million of ABS at fair value through Apidos CDO III and Apidos Cinco CDO, all of which secure the debt issued by these entities. At December 31, 2013, we held a total of $26.7 million fair value of ABS through Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, all of which secured the debt issued by these entities. The decrease in total ABS during 2014 was substantially due to the liquidation of Apidos CDO I.

(Back to Index)

(Back to Index)

The following table summarizes our ABS at fair value (in thousands):

	December 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Moody's ratings category:				
Aaa	$6,084	$6,638	$4,650	$5,058
Aa1 through Aa3	3,748	4,168	8,097	7,469
A1 through A3	—	—	1,263	3,801
Baa1 through Baa3	243	232	2,737	2,736
Ba1 through Ba3	774	727	8,021	6,981
B1 through B3	—	—	638	611
Caa1 through Caa3	—	—	—	—
No rating provided	—	—	—	—
Total	$10,849	$11,765	$25,406	$26,656
S&P ratings category:				
AAA	$5,169	$5,640	$—	$—
AA+ through AA-	3,748	4,168	8,030	7,259
A+ through A-	—	—	5,107	8,094
BBB+ through BBB-	—	—	—	—
BB+ through BB-	774	727	4,868	4,019
B+ through B-	243	232	1,577	1,578
CCC+ through CCC-	—	—	—	—
No rating provided	915	998	5,824	5,706
Total	$10,849	$11,765	$25,406	$26,656
Weighted average rating factor	99		416	

Corporate bonds. At December 31, 2014, our consolidated securitization, Apidos Cinco CDO, held a total of $2.4 million of corporate bonds at fair value, which secure the debt issued by this entity. These investments are held at fair value with any unrealized gain or loss reported in the stockholder's equity section of the balance sheet. The aggregate fair value of corporate bonds held decreased by $56,000 over those held at December 31, 2013. This decrease was primarily due to the sale of two bonds in Apidos Cinco CDO, partially offset by a purchase in Apidos Cinco CDO.

(Back to Index)

(Back to Index)

The following table summarizes our corporate bonds at fair value (in thousands):

	December 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Moody's ratings category:				
Aaa	$—	$—	$—	$—
Aa1 through Aa3	—	—	—	—
A1 through A3	—	—	—	—
Baa1 through Baa3	—	—	—	—
Ba1 through Ba3	—	—	—	—
B1 through B3	—	—	—	—
Caa1 through Caa3	957	960	1,582	1,598
Ca	1,458	1,447	—	—
No rating provided	—	—	935	865
Total	$2,415	$2,407	$2,517	$2,463
S&P ratings category:				
AAA	$—	$—	$—	$—
AA+ through AA-	—	—	—	—
A+ through A-	—	—	—	—
BBB+ through BBB-	—	—	—	—
BB+ through BB-	—	—	—	—
B+ through B-	868	870	869	873
CCC+ through CCC-	1,547	1,537	1,648	1,590
No rating provided	—	—	—	—
Total	$2,415	$2,407	$2,517	$2,463
Weighted average rating factor	4,770		6,500	

Investments in Unconsolidated Entities

The following table shows our investments in unconsolidated entities as of 2014 and 2013 and equity in net earnings (losses) of unconsolidated subsidiaries for the years ended December 31, 2014 and 2013 (in thousands):

	Ownership %	Balance as of December 31, 2014	December 31, 2013	Years Ended December 31, 2014	2013	2012
Varde Investment Partners, L.P.	7.5%	$654	$674	$(20)	$148	$(135)
RRE VIP Borrower, LLC (1)		—	—	3,473	277	682
Investment in LCC Preferred Stock	28.4%	39,416	41,016	(1,555)	(183)	(3,256)
Investment in CVC Global Credit Opportunities Fund	27.7%	18,209	16,177	2,032	1,177	—
Investment in Life Care Funding (2)	50.2%	—	1,530	(75)	(470)	—
Investment in School Lane House (1)		—	975	912	—	—
		58,279	60,372	4,767	949	(2,709)
Investment in RCT I and II (3)	3%	1,548	1,548	2,387	2,401	2,494
Investment in Preferred Equity (1) (4)		—	7,149	410	992	705
		$59,827	$69,069	$7,564	$4,342	$490

(1) Investment in School Lane House, Investment in RRE VIP Borrower and the Investments in preferred equity were sold as of December 31, 2014.

(2) We began consolidating this investment during the first quarter of 2014. Ownership % represents ownership after consolidation.

(3) For the years ended December 31, 2014, 2013, and 2012 these amounts are recorded in interest expense on tour consolidated statements of income.

(4) For the years ended December 31, 2014, 2013 and 2012 these amounts are recorded in interest income on loans on our consolidated statements of income.

(Back to Index)

(Back to Index)

In January 2013, Long-Term Care Conversion, Inc., a wholly-owned subsidiary of ours, or LTCC, invested $2.0 million into Life Care Funding, LLC, a joint-venture established for the purpose of originating and acquiring life settlement contracts in which we own 50.2%, or LCF. In February 2014, we invested an additional $1.4 million, which resulted in the consolidation of LCF during the first quarter of 2014.

Financing Receivables

The following tables show the allowance for loan losses and recorded investments in loans for the years indicated (in thousands):

	Commercial Real Estate Loans	Bank Loans	Middle Market Loans	Residential Mortgage Loans	Loans Receivable-Related Party	Total
As of December 31, 2014:						
Allowance for Loan Losses:						
Allowance for losses at January 1, 2014	$10,416	$3,391	$—	$—	$ —	$13,807
Provision (recovery) for loan loss	(3,758)	4,173	92	—	1,297	1,804
Loans charged-off	(2,615)	(6,994)	(92)	—	(1,297)	(10,998)
Allowance for losses at December 31, 2014	$4,043	$570	$—	$—	$ —	$4,613
Ending balance: (1)						
Individually evaluated for impairment	$—	$570	$—	$—	$ —	$570
Collectively evaluated for impairment	$4,043	$—	$—	$—	$ —	$4,043
Loans acquired with deteriorated credit quality	$—	$—	$—	$—	$ —	$—
Loans:						
Ending balance:						
Individually evaluated for impairment	$166,180	$1,350	$250,113	$—	$ 1,277	$418,920
Collectively evaluated for impairment	$1,180,850	$329,580	$—	$2,802	$ —	$1,513,232
Loans acquired with deteriorated credit quality	$—	$—	$—	$—	$ —	$—
As of December 31, 2013:						
Allowance for Loan Losses:						
Allowance for losses at January 1, 2013	$7,986	$9,705	$—	$—	$ —	$17,691
Provision for loan loss	2,686	312	22	—	—	3,020
Loans charged-off	(256)	(6,626)	(22)	—	—	(6,904)
Allowance for losses at December 31, 2013	$10,416	$3,391	$—	$—	$ —	$13,807
Ending balance:						
Individually evaluated for impairment	$4,572	$2,621	$—	$—	$ —	$7,193
Collectively evaluated for impairment	$5,844	$770	$—	$—	$ —	$6,614
Loans acquired with deteriorated credit quality	$—	$—	$—	$—	$ —	$—

Loans:						
Ending balance: [1]						
Individually evaluated for impairment	$194,403	$3,554	$—	$—	$ 6,966	$204,923
Collectively evaluated for impairment	$631,908	$558,469 (2)	$—	$16,915	$ —	$1,207,292
Loans acquired with deteriorated credit quality	$—	$—	$—	$—	$ —	$—

(1) Loan balances as of December 31, 2014 and 2013 include loans held for sale.
(2) Contains $44.3 million of middle market loans at December 31, 2013.

(Back to Index)

(Back to Index)

Credit quality indicators
Bank Loans
We use a risk grading matrix to assign grades to bank loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-5 with 1 representing our highest rating and 5 representing its lowest rating. We also designate loans that are sold after the period end as held for sale at the lower of their fair market value or cost, net of any allowances and costs associated with the loan sales. We consider factors such as performance of the underlying company, liquidity, collectability of interest, enterprise valuation, default probability, ratings from rating agencies and industry dynamics in grading our bank loans.
Credit risk profiles of bank and middle market loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Held for Sale	Total
As of December 31, 2014:							
Bank loans	$291,214	$32,660	$5,424	$—	$1,350	$282	$330,930
As of December 31, 2013:							
Bank loans	$448,224	$42,476	$18,806	$2,333	$3,554	$2,377	$517,770

All of our bank loans were performing with the exception of two loans with an amortized cost of $1.4 million as of December 31, 2014, one of which defaulted as of March 31, 2014 and the other defaulted as of September 30, 2014. As of December 31, 2013, all of our bank loans were performing with the exception of three loans with an amortized cost of $3.6 million, one of which defaulted in 2012, one of which defaulted as of March 31, 2013 and one of which defaulted as of June 30, 2013.
Middle Market Loans
We use a risk grading matrix to assign grades to middle market loans. At inception, all middle market loans are graded at a 2 and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-5 with 1 representing our highest rating and 5 representing its lowest rating. A loan with a rating of a 2 is considered performing within expectations. We consider metrics such as performance of the underlying company, liquidity, collectability of interest and principal payments, enterprise valuation, default probability, and industry dynamics in grading its middle market loans.
Credit risk profiles of bank and middle market loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Held for Sale	Total
As of December 31, 2014:							
Middle market loans	$—	$240,245	$9,868	$—	$—	$—	$250,113
As of December 31, 2013:							
Middle market loans	$—	$39,780	$—	$—	$—	$4,473	$44,253

All of our middle market loans were performing as of December 31, 2014 and 2013.
Commercial Real Estate Loans
We use a risk grading matrix to assign grades to commercial real estate loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-4 with 1 representing our highest rating and 4 representing our lowest rating. We value loans that are sold after the period end at the lower of our fair market value or cost, net of any allowances and costs associated with the loan sales. In addition to the underlying performance of the loan collateral, we consider such things as the strength of underlying sponsorship, payment history, collectability of interest, structural credit enhancements, market trends and loan terms

in grading our commercial real estate loans.

(Back to Index)

(Back to Index)

Credit risk profiles of commercial real estate loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Held for Sale	Total
As of December 31, 2014:						
Whole loans	$1,231,092	$32,500	$—	$—	$—	$1,263,592
B notes	16,072	—	—	—	—	16,072
Mezzanine loans	45,432	21,934	—	—	—	67,366
	$1,292,596	$54,434	$—	$—	$—	$1,347,030
As of December 31, 2013:						
Whole loans	$680,718	$32,500	$32,571	$—	$—	$745,789
B notes	16,205	—	—	—	—	16,205
Mezzanine loans	51,862	12,455	—	—	—	64,317
	$748,785	$44,955	$32,571	$—	$—	$826,311

All of our commercial real estate loans were performing as of December 31, 2014 and 2013.

Residential Mortgage Loans

We review residential mortgage loans periodically for collectability in light of historical experience, the nature and amount of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing underlying conditions. We also designate loans that are sold after period end but before the financial statements are issued as held for sale at the lower of their fair market value or cost.

Loans Receivable - Related Party

In December 2014, we accepted net lease assets with a value of $1.9 million in lieu of cash in order to satisfy the outstanding balance of a related party loan with Lease Equity Appreciation Fund II, L.P, an equipment leasing partnership sponsored by LEAF Financial, a wholly-owned subsidiary of Resource America, and of which a LEAF Financial subsidiary is the general partner. As a result of this transfer of assets and other impairments taken on the underlying lease portfolio during the year, we recorded a total provision for loan losses in the amount of $1.3 million for the year ended December 31, 2014. We took ownership of the lease portfolio to reduce the operating costs of managing the portfolio, which we believe, in turn, maximizes the return of expected future cash flows on our investment.

(Back to Index)

(Back to Index)

Loan Portfolios Aging Analysis

The following table shows the loan portfolio aging analysis for the years indicated at cost basis (in thousands):

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
As of December 31, 2014:							
Whole loans	$—	$—	$—	$—	$1,263,592	$1,263,592	$—
B notes	—	—	—	—	16,072	16,072	—
Mezzanine loans	—	—	—	—	67,366	67,366	—
Bank loans (1)	—	—	1,350	1,350	329,580	330,930	—
Middle market loans (3)	—	—	—	—	250,113	250,113	—
Residential mortgage loans (2)	443	82	119	644	113,612	114,256	—
Loans receivable- related party	—	—	—	—	1,277	1,277	—
Total loans	$443	$82	$1,469	$1,994	$2,041,612	$2,043,606	$—
As of December 31, 2013:							
Whole loans	$—	$—	$—	$—	$745,789	$745,789	$—
B notes	—	—	—	—	16,205	16,205	—
Mezzanine loans	—	—	—	—	64,317	64,317	—
Bank loans(1)	—	—					