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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:

(203) 422-8100

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

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

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

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

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

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of May 1, 2015 was 238,126,915.

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Special Note Regarding Forward-Looking Statements

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

These forward-looking statements are based largely on our current beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or within our control, and which could materially affect actual results, performance or achievements. Factors that may cause actual results to vary from our forward-looking statements include, but are not limited to:

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2014 and this Quarterly Report on Form 10-Q, including those set forth under the captions “Risk Factors” and “Business”;
- defaults by borrowers in paying debt service on outstanding indebtedness;
- impairment in the value of real estate property securing our loans;
- availability of mortgage origination and acquisition opportunities acceptable to us;
- our ability to fully integrate LNR Property LLC, a Delaware limited liability company (“LNR”), which was acquired on April 19, 2013, into our business and achieve the benefits that we anticipate from this acquisition;
- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;
- national and local economic and business conditions;
- general and local commercial and residential real estate property conditions;

- changes in federal government policies;
- changes in federal, state and local governmental laws and regulations;
- increased competition from entities engaged in mortgage lending and securities investing activities;
- changes in interest rates; and
- the availability of and costs associated with sources of liquidity.

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands, except share data)

	As of March 31, 2015	As of December 31, 2014
Assets:		
Cash and cash equivalents	$ 360,720	$ 255,187
Restricted cash	39,568	48,704
Loans held-for-investment, net	6,040,825	5,779,238
Loans held-for-sale, at fair value	343,770	391,620
Loans transferred as secured borrowings	95,000	129,427
Investment securities ($519,625 and $556,253 held at fair value)	1,021,311	998,248
Intangible assets—servicing rights ($130,761 and $132,303 held at fair value)	138,802	144,152
Investment in unconsolidated entities	209,833	193,983
Goodwill	140,437	140,437
Derivative assets	58,601	26,628
Accrued interest receivable	39,121	40,102
Other assets	128,848	135,506
Variable interest entity (“VIE”) assets, at fair value	103,363,978	107,816,065
Total Assets	$ 111,980,814	$ 116,099,297
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 112,954	$ 144,516
Related-party payable	27,673	40,751
Dividends payable	108,435	108,189
Derivative liabilities	11,945	5,476
Secured financing agreements, net	3,711,834	3,137,789
Convertible senior notes, net	1,324,125	1,418,022
Secured borrowings on transferred loans	95,000	129,441
VIE liabilities, at fair value	102,708,732	107,232,201

Total Liabilities	108,100,698	112,216,385
Commitments and contingencies (Note 20)		
Equity:		
Starwood Property Trust, Inc. Stockholders’ Equity:		
Preferred stock, $0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 per share, 500,000,000 shares authorized, 225,550,418 issued and 224,336,668 outstanding as of March 31, 2015 and 224,752,053 issued and 223,538,303 outstanding as of December 31, 2014	2,255	2,248
Additional paid-in capital	3,837,040	3,835,725
Treasury stock (1,213,750 shares)	(23,635)	(23,635)
Accumulated other comprehensive income	39,362	55,896
Retained earnings (accumulated deficit)	2,550	(9,378)
Total Starwood Property Trust, Inc. Stockholders’ Equity	3,857,572	3,860,856
Non-controlling interests in consolidated subsidiaries	22,544	22,056
Total Equity	3,880,116	3,882,912
Total Liabilities and Equity	$ 111,980,814	$ 116,099,297

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

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

	For the Three Months Ended March 31, 2015	2014
Revenues:		
Interest income from loans	$ 118,429	$ 104,910
Interest income from investment securities	27,744	29,454
Servicing fees	28,257	34,211
Other revenues	4,419	3,404
Total revenues	178,849	171,979
Costs and expenses:		
Management fees	27,968	27,821
Interest expense	50,534	37,831
General and administrative	35,264	46,101
Acquisition and investment pursuit costs	1,186	394
Depreciation and amortization	4,085	4,636
Loan loss allowance, net	317	497
Other expense	2,073	1,689
Total costs and expenses	121,427	118,969
Income before other income, income taxes and non-controlling interests	57,422	53,010
Other income:		
Income of consolidated VIEs, net	47,861	56,004
Change in fair value of servicing rights	(1,542)	(5,251)
Change in fair value of investment securities, net	(499)	8,361
Change in fair value of mortgage loans held-for-sale, net	21,131	20,893
Earnings from unconsolidated entities	6,090	64
Gain on sale of investments and other assets, net	17,198	1,555
Gain (loss) on derivative financial instruments, net	24,623	(7,866)
Foreign currency (loss) gain, net	(30,307)	1,477
Total other-than-temporary impairment ("OTTI")	—	(1,192)
Noncredit portion of OTTI recognized in other comprehensive income (loss)	—	979
Net impairment losses recognized in earnings	—	(213)
Loss on extinguishment of debt	(5,292)	—
Other income, net	45	18
Total other income	79,308	75,042
Income from continuing operations before income taxes	136,730	128,052

Income tax provision	(15,951)	(5,620)
Income from continuing operations	120,779	122,432
Loss from discontinued operations, net of tax (Note 3)	—	(1,551)
Net income	120,779	120,881
Net income attributable to non-controlling interests	(416)	(280)
Net income attributable to Starwood Property Trust, Inc.	$ 120,363	$ 120,601
Earnings per share data attributable to Starwood Property Trust, Inc.:		
Basic:		
Income from continuing operations	$ 0.53	$ 0.62
Loss from discontinued operations	—	(0.01)
Net income	$ 0.53	$ 0.61
Diluted:		
Income from continuing operations	$ 0.52	$ 0.61
Loss from discontinued operations	—	(0.01)
Net income	$ 0.52	$ 0.60
Dividends declared per common share	$ 0.48	$ 0.48

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

	For the Three Months Ended March 31,	
	2015	2014
Net income	$ 120,779	$ 120,881
Other comprehensive (loss) income (net change by component):		
Cash flow hedges	(263)	122
Available-for-sale securities	(7,963)	3,498
Foreign currency remeasurement	(8,308)	1,046
Other comprehensive (loss) income	(16,534)	4,666
Comprehensive income	104,245	125,547
Less: Comprehensive income attributable to non-controlling interests	(416)	(280)
Comprehensive income attributable to Starwood Property Trust, Inc.	$ 103,829	$ 125,267

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

Common stock		Additional	Treasury Stock		(Accumulated Deficit)	Accumulated Other	Total Starwood Property Trust, Inc.	Non-
Shares	Par Value	Paid-in Capital	Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Stockholders' Equity	Controllin Interests
224,752,053	$ 2,248	$ 3,835,725	1,213,750	$ (23,635)	$ (9,378)	$ 55,896	$ 3,860,856	$ 22,056
2,303	—	55	—	—	—	—	55	—
—	—	(15,669)	—	—	—	—	(15,669)	—
408,763	4	7,487	—	—	—	—	7,491	—
387,299	3	9,442	—	—	—	—	9,445	—
—	—	—	—	—	120,363	—	120,363	416
—	—	—	—	—	(108,435)	—	(108,435)	—
—	—	—	—	—	—	(16,534)	(16,534)	—
—	—	—	—	—	—	—	—	431
—	—	—	—	—	—	—	—	(359)
225,550,418	$ 2,255	$ 3,837,040	1,213,750	$ (23,635)	$ 2,550	$ 39,362	$ 3,857,572	$ 22,544

196,139,045	$ 1,961	$ 4,300,479	625,850	$ (10,642)	$ (84,719)	$ 75,449	$ 4,282,528	$ 44,605
434,189	4	7,203	—	—	—	—	7,207	—
138,288	2	3,306	—	—	—	—	3,308	—
—	—	—	—	—	120,601	—	120,601	280
—	—	—	—	—	(95,424)	—	(95,424)	—
—	—	(1,118,743)	—	—	—	—	(1,118,743)	(1,594)
—	—	—	—	—	—	4,666	4,666	—
—	—	—	—	—	—	—	—	(31,787)
196,711,522	$ 1,967	$ 3,192,245	625,850	$ (10,642)	$ (59,542)	$ 80,115	$ 3,204,143	$ 11,504

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

	For the Three Months Ended March 31,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	$ 120,779	$ 120,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs	3,510	2,895
Amortization of convertible debt discount and deferred fees	5,363	2,988
Accretion of net discount on investment securities	(10,603)	(7,398)
Accretion of net deferred loan fees and discounts	(10,179)	(1,806)
Amortization of net premium (discount) from secured borrowings on transferred loans	4	(787)
Share-based compensation	7,491	7,207
Share-based component of incentive fees	9,445	3,308
Change in fair value of fair value option investment securities	499	(8,361)
Change in fair value of consolidated VIEs	(5,657)	(21,877)
Change in fair value of servicing rights	1,542	5,251
Change in fair value of loans held-for-sale	(21,131)	(20,893)
Change in fair value of derivatives	(26,724)	7,110
Foreign currency loss (gain), net	30,416	(1,492)
Gain on sale of investments and other assets	(17,198)	(2,498)
Other-than-temporary impairment	—	213
Loan loss allowance, net	317	497
Depreciation and amortization	3,692	5,786
Earnings from unconsolidated entities	(6,090)	(64)
Distributions of earnings from unconsolidated entities	7,030	956
Loss on extinguishment of debt	5,292	—
Originations of loans held-for-sale, net of principal collections	(413,027)	(261,733)
Proceeds from sale of loans held-for-sale	482,009	302,461
Changes in operating assets and liabilities:		
Related-party payable, net	(13,078)	11,665
Accrued and capitalized interest receivable, less purchased interest	(17,341)	3,063
Other assets	1,067	(20,474)
Accounts payable, accrued expenses and other liabilities	(23,282)	(22,574)

Net cash provided by operating activities	114,146	104,324
Cash Flows from Investing Activities:		
Origination and purchase of loans held-for-investment	(649,886)	(728,594)
Proceeds from principal collections on loans	285,741	316,428
Proceeds from loans sold	85,121	146,400
Purchase of investment securities	(67,247)	(9,890)
Proceeds from sales of investment securities	4,713	27,883
Proceeds from principal collections on investment securities	11,737	8,227
Deposit on property acquisition	(18,178)	—
Proceeds from sale of properties	33,056	1,784
Purchase of other assets	(435)	—
Investment in unconsolidated entities	(28,041)	—
Distribution of capital from unconsolidated entities	11,296	17,834
Payments for purchase or termination of derivatives	(6,117)	(11,274)
Proceeds from termination of derivatives	6,988	799
Return of investment basis in purchased derivative asset	90	407
Decrease in restricted cash, net	5,326	234
Spin-off of Starwood Waypoint Residential Trust	—	(111,960)
Acquisition and improvement of single family homes	—	(61,901)
Proceeds from sale of non-performing loans	—	1,153
Net cash used in investing activities	(325,836)	(402,470)

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

	For the Three Months Ended March 31,			
	2015		2014	
Cash Flows from Financing Activities:				
Borrowings under financing agreements	$	1,320,732	$	997,767
Principal repayments on and repurchases of borrowings		(847,288)		(656,573)
Payment of deferred financing costs		(1,263)		(7,418)
Proceeds from common stock issuances		55		—
Payment of dividends		(108,189)		(90,171)
Distributions to non-controlling interests		(359)		(31,788)
Issuance of debt of consolidated VIEs		6,763		45,761
Repayment of debt of consolidated VIEs		(51,538)		(53,385)
Distributions of cash from consolidated VIEs		3,790		2,740
Net cash provided by financing activities		322,703		206,933
Net increase (decrease) in cash and cash equivalents		111,013		(91,213)
Cash and cash equivalents, beginning of period		255,187		317,627
Effect of exchange rate changes on cash		(5,480)		57
	$	360,720	$	226,471

Cash and cash equivalents, end of period				
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	48,448	$	44,638
Income taxes paid		2,903		2,725
Supplemental disclosure of non-cash investing and financing activities:				
Net assets distributed in spin-off of Starwood Waypoint Residential Trust	$	—	$	1,008,377
Dividends declared, but not yet paid		108,435		95,424
Consolidation of VIEs (VIE asset/liability additions)		4,413,608		20,236,513
Deconsolidation of VIEs (VIE asset/liability reductions)		17,841		1,289,569

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of March 31, 2015

(Unaudited)

1. Business and Organization

Starwood Property Trust, Inc. (“STWD” together with its subsidiaries, “we” or the “Company”) is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering (“IPO”). We are focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities (“CMBS”), and other commercial real estate-related debt investments in both the U.S. and Europe. We refer to the following as our target assets:

- commercial real estate mortgage loans, including preferred equity interests;
- CMBS; and
- other commercial real estate-related debt investments.

Our target assets may also include residential mortgage-backed securities (“RMBS”), certain residential mortgage loans, distressed or non-performing commercial loans, commercial properties subject to net leases and equity interests in commercial real estate. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have two reportable business segments as of March 31, 2015:

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

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

On January 31, 2014, we completed the spin-off of our former single family residential (“SFR”) segment to our stockholders. The newly-formed real estate investment trust, Starwood Waypoint Residential Trust (“SWAY”), is listed on the New York Stock Exchange (“NYSE”) and trades under the ticker symbol “SWAY.” Our stockholders received one common share of SWAY for every five shares of our common stock held at the close of business on January 24, 2014. As part of the spin-off, we contributed $100 million to the unlevered balance sheet of SWAY to fund its growth and operations. As of January 31, 2014, SWAY held net assets of $1.1 billion. The net assets of SWAY consisted of approximately 7,200 units of single-family homes and residential non-performing mortgage loans as of January 31, 2014. In connection with the spin-off, 40.1 million shares of SWAY were issued. Refer to Note 3 herein for additional information regarding SFR segment financial information, which has been presented within discontinued operations in the condensed consolidated statements of operations included herein.

We are organized and conduct our operations to qualify as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). As such, we will generally not be subject to U.S. federal

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corporate income tax on that portion of our net income that is distributed to stockholders if we distribute at least 90% of our taxable income to our stockholders by prescribed dates and comply with various other requirements.

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

2. Summary of Significant Accounting Policies

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

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

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

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

Refer to the segment data in Note 21 for a presentation of the Investing and Servicing Segment without consolidation of these VIEs.

Basis of Accounting and Principles of Consolidation

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

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

Refer to our Form 10-K for a description of our recurring accounting policies. We have included disclosure in this Note 2 regarding principles of consolidation and other accounting policies that (i) are required to be disclosed

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quarterly, (ii) we view as critical, or (iii) became significant since December 31, 2014 due to a corporate action or increase in the significance of the underlying business activity.

Variable Interest Entities

We evaluate all of our interests in VIEs for consolidation. When our interests are determined to be variable interests, we assess whether we are deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. Accounting Standards Codification ("ASC") 810, Consolidation, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. We consider our variable interests as well as any variable interests of our related parties in making this determination. Where both of these factors are present, we are deemed to be the primary beneficiary and we consolidate the VIE. Where either one of these factors is not present, we are not the primary beneficiary and do not consolidate the VIE.

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

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

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

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

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

We separately present the assets and liabilities of our consolidated VIEs as individual line items on our consolidated balance sheets. The assets of consolidated VIEs consist of loans and foreclosed loans which have been temporarily converted into real estate owned. These assets are presented in the aggregate because they are similar in nature and can only be used to settle the obligations of the consolidated VIEs. There is no recourse to the general credit of the Company for the obligations of our consolidated VIEs.

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

Convertible Senior Notes

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

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

Discontinued Operations

On January 31, 2014, we completed the spin-off of our former SFR segment to our stockholders as discussed in Note 1. In accordance with ASC 205, Presentation of Financial Statements, the results of the SFR segment are presented within discontinued operations in our condensed consolidated statements of operations for the three months ended

March 31, 2014.

Fair Value Option

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

We have elected the fair value option for eligible financial assets and liabilities of our consolidated VIEs, loans held-for-sale originated by the Investing and Servicing Segment's conduit platform, purchased CMBS issued by VIEs we could consolidate in the future and certain investments in marketable equity securities. The fair value elections for VIE and securitization related items were made in order to mitigate accounting mismatches between the carrying value of the instruments and the related assets and liabilities that we consolidate at fair value. The fair value elections for

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mortgage loans held-for-sale originated by the Investing and Servicing Segment's conduit platform were made due to the short-term nature of these instruments. The fair value elections for investments in marketable equity securities were made because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market.

Fair Value Measurements

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

As discussed above, we measure the assets and liabilities of consolidated VIEs at fair value pursuant to our election of the fair value option. The VIEs in which we invest are "static"; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a collateralized debt obligation ("CDO"). This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. Refer to Note 18 for further information regarding our fair value measurements.

Loans Receivable and Provision for Loan Losses

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

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

Earnings Per Share

We present both basic and diluted earnings per share ("EPS") amounts in our financial statements. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur from (i) our share-based compensation, consisting of unvested restricted stock ("RSAs") and restricted stock units ("RSUs"), (ii) contingently issuable shares to our Manager; and (iii) the "in-the-money" conversion options associated with our outstanding convertible notes (see further discussion in Note 16). Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

The Company's unvested RSUs and RSAs contain rights to receive non-forfeitable dividends and thus are participating securities. Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities. For the three months ended March 31, 2015 and 2014, the two-class method resulted in the most dilutive EPS calculation.

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Use of Estimates

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

Recent Accounting Developments

On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. The ASU is effective for the first interim or annual period beginning after December 15, 2016. Early application is not permitted. We do not expect the application of this ASU to materially impact the Company.

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

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

3. Acquisitions and Divestitures

SFR Spin-off

As described in Note 1, on January 31, 2014, we completed the spin-off of our former SFR segment to our stockholders. The results of operations for the SFR segment are presented within discontinued operations in our condensed consolidated statement of operations for the three months ended March 31, 2014. We have no continuing involvement with the SFR segment following the spin-off. Subsequent to the spin-off, SWAY entered into a management agreement with an affiliate of our Manager. The following table presents the summarized consolidated results of discontinued operations for the SFR segment prior to the spin-off (in thousands):

	For the Three Months Ended March 31, 2014
Total revenues	$ 3,876
Total costs and expenses	6,369
Loss before other income and income taxes	(2,493)
Total other income	942
Loss before income taxes	(1,551)
Income tax provision	—
Net loss	$ (1,551)

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Ireland Portfolio Acquisition

In March 2015, we entered into agreements to acquire a portfolio of nine office properties and one multi-family residential property all located in Dublin, Ireland. The completion of the acquisition is subject to our entrance into definitive agreements to acquire three additional office properties also located in Dublin. The aggregate purchase price for all 13 properties, which collectively comprise approximately 630,000 square feet, is approximately €452.5 million. The acquisitions are subject to customary closing conditions.

Divestiture of Commercial Real Estate

In March 2015, we sold an operating property that we had previously acquired from a CMBS trust. The sale resulted in a $17.1 million gain, which is included in gain on sale of investments and other assets in our condensed consolidated statement of operations for the three months ended March 31, 2015.

4. Loans

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

March 31, 2015	Carrying Value	Face Amount	Weighted Average Coupon		Weighted Average Life ("WAL") (years)(2)
First mortgages	$ 4,008,607	$ 4,073,852	5.2	%	3.6
Subordinated mortgages(1)	325,172	353,614	7.9	%	3.8
Mezzanine loans	1,713,394	1,707,767	10.2	%	3.3
Total loans held-for-investment	6,047,173	6,135,233			
Loans held-for-sale, fair value option elected	343,770	338,795	4.4	%	9.3
Loans transferred as secured borrowings	95,000	95,000	6.0	%	2.3
Total gross loans	6,485,943	6,569,028			
Loan loss allowance (loans held-for-investment)	(6,348)	—			
Total net loans	$ 6,479,595	$ 6,569,028			

December 31, 2014

First mortgages	$ 3,834,700	$ 3,898,021	5.4 %	3.6
Subordinated mortgages(1)	345,091	374,859	8.1 %	3.9
Mezzanine loans	1,605,478	1,601,453	10.3 %	3.0
Total loans held-for-investment	5,785,269	5,874,333		
Loans held-for-sale, fair value option elected	391,620	390,342	4.5 %	8.3
Loans transferred as secured borrowings	129,427	129,570	5.4 %	2.5
Total gross loans	6,306,316	6,394,245		
Loan loss allowance (loans held-for-investment)	(6,031)	—		
Total net loans	$ 6,300,285	$ 6,394,245		

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

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

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As of March 31, 2015, approximately $4.9 billion, or 80.4%, of our loans held-for-investment were variable rate and paid interest principally at LIBOR plus a weighted-average spread of 5.9%. The following table summarizes our investments in floating rate loans (amounts in thousands):

	March 31, 2015			December 31, 2014		
Index	Base Rate		Carrying Value	Base Rate		Carrying Value
1 Month LIBOR USD	0.1763	%	$ 337,566	0.1713	%	$ 138,576
3 Month LIBOR GBP	0.5696	%	401,221	0.5640	%	440,222
LIBOR floor	0.15 - 3.00	% (1)	4,120,753	0.15 - 3.00	% (1)	3,889,412
Total			$ 4,859,540			$ 4,468,210

(1) The weighted-average LIBOR Floor was 0.32% and 0.35% as of March 31, 2015 and December 31, 2014, respectively.

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

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

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

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

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As of March 31, 2015, the risk ratings for loans subject to our rating system, which excludes loans on the cost recovery method and loans for which the fair value option has been elected, by class of loan were as follows (amounts in thousands):

	Balance Sheet Classification Loans Held-For-Investment							
Risk Rating Category	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Cost Recovery Loans	Loans Held-For-Sale	Loans Transferred As Secured Borrowings	Total	% of Total Loans
1	$ —	$ —	$ —	$ —	$ —	$ —	$ —	— %
2	287,280	109,085	208,402	—	—	—	604,767	9.3 %
3	3,562,495	183,457	1,377,479	—	—	95,000	5,218,431	80.5 %
4	109,755	32,630	127,513	—	—	—	269,898	4.2 %
5	45,983	—	—	—	—	—	45,983	0.7 %
N/A	—	—	—	3,094	343,770	—	346,864	5.3 %
	$ 4,005,513	$ 325,172	$ 1,713,394	$ 3,094	$ 343,770	$ 95,000	$ 6,485,943	100.0 %

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

	Balance Sheet Classification Loans Held-For-Investment							
Risk Rating Category	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Cost Recovery Loans	Loans Held-For-Sale	Loans Transferred As Secured Borrowings	Total	% of Total Loans
1	$ 822	$ —	$ —	$ —	$ —	$ —	$ 822	— %
2	115,407	116,168	291,997	—	—	—	523,572	8.3 %
3	3,559,716	196,476	1,206,624	—	—	129,427	5,092,243	80.7 %
4	109,489	32,447	106,857	—	—	—	248,793	4.0 %
5	45,974	—	—	—	—	—	45,974	0.7 %
N/A	—	—	—	3,292	391,620	—	394,912	6.3 %
	$ 3,831,408	$ 345,091	$ 1,605,478	$ 3,292	$ 391,620	$ 129,427	$ 6,306,316	100.0 %

After completing our impairment evaluation process, we concluded that no impairment charges were required on any individual loans held-for-investment as of March 31, 2015 or December 31, 2014. As of March 31, 2015,

approximately $3.1 million of our loans held-for-investment were 90 days past due or greater, all of which are within the Investing and Servicing Segment and were acquired as part of the acquisition of LNR Property LLC ("LNR"). None of our held-for-sale loans where we have elected the fair value option were 90 days past due or greater or on nonaccrual status.

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

	For the Three Months Ended March 31,	
	2015	2014
Allowance for loan losses at January 1	$ 6,031	$ 3,984
Provision for loan losses	317	497
Charge-offs	—	—
Recoveries	—	—
Allowance for loan losses at March 31	$ 6,348	$ 4,481
Recorded investment in loans related to the allowance for loan loss	$ 315,881	$ 298,753

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

	For the Three Months Ended March 31,	
	2015	2014
Balance at January 1	$ 6,300,285	$ 4,750,804
Acquisitions/originations/additional funding	1,063,108	981,762
Capitalized interest(1)	17,490	8,656
Basis of loans sold(2)	(567,033)	(448,317)
Loan maturities/principal repayments	(320,379)	(353,934)
Discount accretion/premium amortization	10,179	1,806
Changes in fair value	21,131	20,893
Unrealized foreign currency remeasurement (loss) gain	(45,907)	3,629
Change in loan loss allowance, net	(317)	(497)
Transfer to/from other asset classifications	1,038	—
Balance at March 31	$ 6,479,595	$ 4,964,802

(1) Represents accrued interest income on loans whose terms do not require current payment of interest.
(2) See Note 10 for additional disclosure on these transactions.

5. Investment Securities

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

	Carrying Value as of	
	March 31, 2015	December 31, 2014
RMBS, available-for-sale	$ 197,385	$ 207,053
Single-borrower CMBS, available-for-sale	94,909	100,349
CMBS, fair value option (1)	806,876	753,553
Held-to-maturity (“HTM”) securities	501,686	441,995
Equity security, fair value option	14,045	15,120
Subtotal—Investment securities	1,614,901	1,518,070
VIE eliminations (1)	(593,590)	(519,822)
Total investment securities	$ 1,021,311	$ 998,248

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

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

	Available-for-sale RMBS	CMBS	CMBS, fair value option	HTM Securities	Equity Security	Total
Three Months Ended March 31, 2015						
Purchases	$ —	$ —	$ 8,738	$ 58,509	$ —	$ 67,247
Sales	—	—	4,713	—	—	4,713
Principal collections	11,487	224	1	25	—	11,737
Three Months Ended March 31, 2014						
Purchases	$ —	$ —	$ 9,890	$ —	$ —	$ 9,890
Sales	9,309	—	18,574	—	—	27,883
Principal collections	7,819	408	—	—	—	8,227

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

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

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

				Unrealized Gains or (Losses) Recognized in AOCI				
	Purchase Amortized Cost	Credit OTTI	Recorded Amortized Cost	Non-Credit OTTI	Gross Unrealized Gains	Gross Unrealized Losses	Net Fair Value Adjustment	Fair Value
March 31, 2015								
RMBS	$ 161,692	$ (10,197)	$ 151,495	$ —	$ 46,069	$ (179)	$ 45,890	$ 197,385
	88,908	—	88,908	—	6,001	—	6,001	94,909

Single-borrower CMBS								
Total	$ 250,600	$ (10,197)	$ 240,403	$ —	$ 52,070	$ (179)	$ 51,891	$ 292,294
December 31, 2014								
RMBS	$ 163,733	$ (10,197)	$ 153,536	$ (197)	$ 53,714	$ —	$ 53,517	$ 207,053
Single-borrower CMBS	93,685	—	93,685	—	6,664	—	6,664	100,349
Total	$ 257,418	$ (10,197)	$ 247,221	$ (197)	$ 60,378	$ —	$ 60,181	$ 307,402

	Weighted Average Coupon(1)	Weighted Average Rating (Standard & Poor's)	WAL (Years)(2)
March 31, 2015			
RMBS	1.1 %	B−	5.8
Single-borrower CMBS	11.6 %	B	0.4
December 31, 2014			
RMBS	1.1 %	B−	5.8
Single-borrower CMBS	11.6 %	BB+	3.2

(1) Calculated using the March 31, 2015 and December 31, 2014 one-month LIBOR rate of 0.176% and 0.171%, respectively, for floating rate securities.

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

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As of March 31, 2015, there were no variable rate single-borrower CMBS. As of December 31, 2014, $0.2 million, or 0.2%, of the single-borrower CMBS were variable rate. As of March 31, 2015, approximately $137.4 million, or 69.6%, of the RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.44%. As of December 31, 2014, approximately $140.1 million, or 67.7%, of the RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.44%. We purchased all of the RMBS at a discount that will be accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of these discounts.

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

	March 31, 2015		December 31, 2014	
	RMBS	CMBS	RMBS	CMBS
Principal balance	$ 258,755	$ 88,908	$ 270,783	$ 93,685
Accretable yield	(82,242)	—	(85,495)	—
Non-accretable difference	(25,018)	—	(31,752)	—
Total discount	(107,260)	—	(117,247)	—
Amortized cost	$ 151,495	$ 88,908	$ 153,536	$ 93,685

The principal balance of credit deteriorated RMBS was $217.8 million and $222.9 million as of March 31, 2015 and December 31, 2014, respectively. Accretable yield related to these securities totaled $67.6 million and $66.6 million as of March 31, 2015 and December 31, 2014, respectively.

The following table discloses the changes to accretable yield and non-accretable difference for our RMBS and single-borrower CMBS during the three months ended March 31, 2015 and 2014, excluding CMBS where we have elected the fair value option (amounts in thousands):

	Accretable Yield		Non-Accretable Difference	
Three Months Ended March 31, 2015	RMBS	CMBS	RMBS	CMBS
Balance as of January 1, 2015	$ 85,495	$ —	$ 31,752	$ —
Accretion of discount	(9,445)	—	—	—
Principal write-downs	—	—	(542)	—
Purchases	—	—	—	—
Sales	—	—	—	—
OTTI	—	—	—	—
Transfer to/from non-accretable difference	6,192	—	(6,192)	—

Balance as of March 31, 2015	$ 82,242	$ —	$ 25,018	$ —
Three Months Ended March 31, 2014				
Balance as of January 1, 2014	$ 101,046	$ —	$ 70,196	$ —
Accretion of discount	(6,564)	—	—	—
Principal write-downs	—	—	(366)	—
Purchases	—	—	—	—
Sales	(1,962)	—	(7,509)	—
OTTI	213	—	—	—
Transfer to/from non-accretable difference	6,889	—	(6,889)	—
Balance as of March 31, 2014	$ 99,622	$ —	$ 55,432	$ —

Subject to certain limitations on durations, we have allocated an amount to invest in RMBS that cannot exceed 10% of our total assets excluding Investing and Servicing Segment VIEs. We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was $0.4 million and $0.6 million for the three months ended March 31, 2015 and 2014, respectively, which has been recorded as management fees in the accompanying condensed consolidated statements of operations.

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

	Estimated Fair Value		Unrealized Losses	
	Securities with a loss less than 12 months	Securities with a loss greater than 12 months	Securities with a loss less than 12 months	Securities with a loss greater than 12 months
As of March 31, 2015				
RMBS	$ —	$ 679	$ —	$ (179)
Single-borrower CMBS	—	—	—	—
Total	$ —	$ 679	$ —	$ (179)
As of December 31, 2014				
RMBS	$ —	$ 682	$ —	$ (197)
Single-borrower CMBS	—	—	—	—
Total	$ —	$ 682	$ —	$ (197)

As of March 31, 2015 and December 31, 2014, there was one security with unrealized losses reflected in the table above. After evaluating this security and recording an adjustment for credit-related other-than-temporary impairment in 2014, we concluded that the remaining unrealized losses reflected above were noncredit-related and would be recovered from the security's estimated future cash flows. We considered a number of factors in reaching this conclusion, including that we did not intend to sell the security, it was not considered more likely than not that we would be forced to sell the security prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Credit losses, which represent most of the other-than-temporary impairments we record on securities, are calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to (ii) our amortized cost basis. Significant judgment is used in projecting cash flows for our non-agency RMBS. As a result, actual income and/or impairments could be materially different from what is currently projected and/or reported.

CMBS, Fair Value Option

As discussed in the "Fair Value Option" section of Note 2 herein, we elect the fair value option for the Investing and Servicing Segment's CMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of March 31, 2015, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, were $806.9 million and $4.4 billion, respectively. These balances represent our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value ($593.6 million at March 31, 2015) is

eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS. During the three months ended March 31, 2015, we purchased $60.3 million of CMBS for which we elected the fair value option. Due to our consolidation of securitization VIEs, $51.5 million of this amount is eliminated and reflected primarily as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows.

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

	Weighted Average Coupon		Weighted Average Rating (Standard & Poor's) (1)	WAL (Years)(2)
March 31, 2015				
CMBS, fair value option	3.9	%	CCC	8.1
December 31, 2014				
CMBS, fair value option	3.9	%	CCC−	7.7

(1) As of March 31, 2015 and December 31, 2014, excludes $33.8 million and $41.7 million, respectively, in fair value option CMBS that are not rated.

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

HTM Securities

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

	Net Carrying Amount (Amortized Cost)	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
March 31, 2015				
Preferred interests	$ 308,582	$ —	$ (2,370)	$ 306,212
CMBS	193,104	5	(66)	193,043
Total	$ 501,686	$ 5	$ (2,436)	$ 499,255
December 31, 2014				
Preferred interests	$ 307,465	$ —	$ (1,366)	$ 306,099
CMBS	134,530	—	—	134,530
Total	$ 441,995	$ —	$ (1,366)	$ 440,629

During 2015, we purchased a CMBS security with a face value of $59.0 million and a purchase price of $58.5 million, which we expect to hold to maturity. The stated maturity of this security is March 2017.

During 2014, we purchased a preferred equity interest of $19.0 million in a limited liability company that owns commercial real estate. This preferred equity interest matures in February 2023. During 2014, we also purchased two CMBS securities with face values of $25.5 million and $25.0 million, respectively, for $25.4 million and $25.0 million, respectively, both of which we expect to hold to maturity. The stated maturities of these securities are November 2016 and December 2016, respectively.

During 2013, we originated two preferred equity interests of $246.1 million and $37.2 million, respectively, in limited liability companies that own commercial real estate. These preferred equity interests mature in December 2018 and July 2015, respectively. During 2013, we also purchased a CMBS security with a face value and purchase price of $84.1 million, which we expect to hold to maturity. The stated maturity of this security is November 2016.

Equity Security, Fair Value Option

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

requirements. The fair value of the investment remeasured in USD was $14.0 million and $15.1 million as of March 31, 2015 and December 31, 2014, respectively.

6. Investment in Unconsolidated Entities

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

	Participation / Ownership %(1)	Carrying value as of March 31, 2015	Carrying value as of December 31, 2014	Carrying value over (under) equity in net assets as of March 31, 2015(2)
Equity method:				
Retail Fund	33%	$ 128,308	$ 129,475	$ —
Investor entity which owns equity in two real estate services providers	50%	21,888	21,534	—
Equity interests in commercial real estate(3)	16% - 43%	28,149	—	—
Bridge loan venture	various	8,329	8,417	65
Various	25% - 50%	6,101	16,933	(3,090)
		192,775	176,359	$ (3,025)
Cost method:				
Investment funds which own equity in a loan servicer and other real estate assets	4% - 6%	9,225	9,225	
Various	2% - 10%	7,833	8,399	
		17,058	17,624	
		$ 209,833	$ 193,983	

(1) None of these investments are publicly traded and therefore quoted market prices are not available.
(2) Differences between the carrying value of our investment and the underlying equity in net assets of the investee are accounted for as if the investee were a consolidated entity in accordance with ASC 323, Investments—Equity Method and Joint Ventures.
(3) During the three months ended March 31 2015, we acquired $28.0 million of equity interests in limited liability companies that own ten office and student housing properties throughout the U.S.

During the three months ended March 31, 2015, we recognized $2.6 million of income from the Retail Fund.

7. Goodwill and Intangible Assets

Goodwill

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

Servicing Rights Intangibles

In connection with the LNR acquisition, we identified domestic and European servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. All of our servicing fees are specified by these Pooling and Servicing Agreements. At March 31, 2015 and December 31, 2014, the balance of the domestic servicing intangible was net of $42.7 million and $46.1 million, respectively, that was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs.

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Before VIE consolidation, as of March 31, 2015 and December 31, 2014 the domestic servicing intangible had a balance of $173.5 million and $178.4 million, respectively, which represents our economic interest in this asset.

The table below presents information about our GAAP servicing intangibles for the three months ended March 31, 2015 and 2014 (in thousands):

Domestic servicing rights, at fair value	2015	2014
Fair value at January 1	$ 132,303	$ 150,149
Changes in fair value due to changes in inputs and assumptions	(1,542)	(5,251)
Fair value at March 31	130,761	144,898
European servicing rights		
Net carrying amount at January 1 (fair value of $12.7 million and $29.3 million)	11,849	27,024
Foreign exchange (loss) gain	(504)	145
Amortization	(3,304)	(4,011)
Net carrying value at March 31 (fair value of $11.2 million and $24.4 million)	8,041	23,158
Total servicing rights at March 31	$ 138,802	$ 168,056
Accumulated amortization at March 31, net of foreign exchange effect	(23,723)	(12,559)

8. Secured Financing Agreements

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

	Current Maturity	Extended Maturity(a)	Pricing	Pledged Asset Carrying Value	Maximum Facility Size	Carrying Value at March 31, 2015	December 31, 2014
Lender 1 Repo 1	(b)	(b)	LIBOR + 1.85%	$ 1,474,127	$ 1,250,000	$ 1,040,651	$ 875,111

			to 5.25%				
Lender 1 Repo 2	(c)	N/A	LIBOR + 1.90%	195,032	125,000	117,125	101,886
Lender 2 Repo 1	Oct 2015	Oct 2018	LIBOR + 1.75% to 2.75%	410,800	325,000	304,596	240,188
Lender 3 Repo 1	May 2017	May 2019	LIBOR + 2.85%	177,443	123,366	123,366	124,250
Conduit Repo 1	Sep 2015	Sep 2016	LIBOR + 1.90%	72,603	150,000	53,513	94,727
Conduit Repo 2	Nov 2015	Nov 2016	LIBOR + 2.10%	155,532	150,000	115,376	113,636
Conduit Repo 3	Feb 2018	Feb 2019	LIBOR + 2.10%	96,419	150,000	70,826	—
Lender 4 Repo 1	Oct 2015	Oct 2017	LIBOR + 2.60%	396,381	311,178	311,178	327,117
Lender 5 Repo 1	(d)	N/A	N/A	—	—	—	58,079
Lender 6 Repo 1	Aug 2017	Aug 2018	LIBOR + 2.75% to 3.00%	572,477	500,000	398,201	296,967
Lender 7 Repo 1	Dec 2016	N/A	LIBOR + 2.60% to 2.70%	50,377	39,024	39,024	39,024
Lender 8 Mortgage	Nov 2024	N/A	4.59%	17,904	14,000	14,000	14,000
Lender 9 Repo 1	(e)	(e)	LIBOR + 1.40% to 1.85%	275,061	190,463	190,463	—
Borrowing Base	Sep 2015	Sep 2017	LIBOR + 3.25% (f)	1,009,289	450,000 (g)	272,173	189,871
Term Loan	Apr 2020	N/A	LIBOR + 2.75% (f)	2,665,096	663,347	661,342 (h)	662,933 (h)
				$ 7,568,541	$ 4,441,378	$ 3,711,834	$ 3,137,789

(a) Subject to certain conditions as defined in the respective facility agreement.

(b) Maturity date for borrowings collateralized by loans of January 2017 before extension options and January 2019 assuming initial extension options.

(c) The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 2017.

(d) Facility was terminated at our option in March 2015.

(e) Facility carries a rolling twelve month term which may reset monthly with the lender's consent. Current maturity is March 2016. Facility carries no maximum borrowing capacity. Amount herein reflects the outstanding balance as of March 31, 2015.

(f) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement. The Term Loan is also subject to a 75 basis point floor.

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(g) Maximum borrowings under this facility were temporarily increased from $250.0 million to $450.0 million. This increase expires in June 2015.
(h) Term loan outstanding balance is net of $2.0 million and $2.1 million of unamortized discount as of March 31, 2015 and December 31, 2014.

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

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

In March 2015, we executed a repurchase facility (“Lender 9 Repo 1”) with a new lender to finance certain CMBS holdings, including CMBS holdings previously financed under the Lender 5 Repo 1 facility which was terminated at our option in March 2015. There is no maximum facility size specified under the facility as the lender will evaluate all eligible collateral on an individual basis. As of March 31, 2015, borrowings totaled $190.5 million. The facility carries a rolling twelve month term which may reset monthly with the lender’s consent and an annual interest rate of LIBOR +1.40% to LIBOR +1.85% depending on the CMBS collateral.

Subsequent to March 31, 2015, we amended the Lender 4 Repo 1 facility to reduce pricing.

Our secured financing agreements contain certain financial tests and covenants. Should we breach certain of these covenants, it may restrict our ability to pay dividends in the future. As of March 31, 2015, we were in compliance with all such covenants.

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

2015 (remainder of)	$ 539,658

2016	212,114
2017	1,088,785
2018	462,317
2019	765,770
Thereafter(1)	645,195
Total	$ 3,713,839

(1) Principal paydown of the Term Loan through 2020 excludes $2.0 million of discount amortization.

Secured financing maturities for 2015 primarily relate to $239.7 million on the Conduit Repo facilities and $272.2 million on the Borrowing Base facility.

As of March 31, 2015 and December 31, 2014, we had approximately $24.3 million and $26.5 million, respectively, of deferred financing costs from secured financing agreements, net of amortization, which is included in other assets on our condensed consolidated balance sheets. For the three months ended March 31, 2015 and 2014, approximately $3.5 million and $2.9 million, respectively, of amortization was included in interest expense on our condensed consolidated statements of operations.

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9. Convertible Senior Notes

On October 8, 2014, we issued $431.3 million of 3.75% Convertible Senior Notes due 2017 (the “2017 Notes”). On February 15, 2013, we issued $600.0 million of 4.55% Convertible Senior Notes due 2018 (the “2018 Notes”). On July 3, 2013, we issued $460.0 million of 4.00% Convertible Senior Notes due 2019 (the “2019 Notes”). The following summarizes the unsecured convertible senior notes (collectively, the “Convertible Notes”) outstanding as of March 31, 2015 (amounts in thousands, except rates):

	Principal Amount	Coupon Rate	Effective Rate(1)	Conversion Rate(2)	Maturity Date	Remaining Period of Amortization
2017 Notes	$ 431,250	3.75 %	5.87 %	41.7397	10/15/2017	2.5 years
2018 Notes	$ 599,981	4.55 %	6.10 %	45.3639	3/1/2018	2.9 years
2019 Notes	$ 355,872	4.00 %	5.37 %	48.2112	1/15/2019	3.8 years

	As of March 31, 2015	As of December 31, 2014
Total principal	$ 1,387,103	$ 1,491,228
Net unamortized discount	(62,978)	(73,206)
Carrying amount of debt components	$ 1,324,125	$ 1,418,022
Carrying amount of conversion option equity components recorded in additional paid-in capital	$ 48,401	$ 64,070

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

(2) The conversion rate represents the number of shares of common stock issuable per $1,000 principal amount of Convertible Notes converted, as adjusted in accordance with the applicable indentures as a result of the spin-off of the SFR segment and cash dividend payments. The if-converted value of the 2017 Notes, 2018 Notes and 2019 Notes exceeded their principal amount by $6.1 million, $61.5 million and $61.1 million, respectively, at March 31, 2015 since the closing market price of the Company’s common stock of $24.30 per share exceeded the implicit conversion prices of $23.96, $22.04 and $20.74 per share, respectively. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, conversion of this principal amount, totaling 57.0 million shares, was not included in the computation of diluted earnings per share (“EPS”). However, the conversion spread value for the Convertible Notes, representing 5.4 million shares, was included in the computation of diluted EPS as the notes were “in-the-money”. See further discussion at Note 16.

Under the repurchase program approved by our board of directors (refer to Note 15), we repurchased $104.1 million aggregate principal amount of our 2019 Notes during the three months ended March 31, 2015 for $119.8 million plus transaction expenses of $0.1 million. The repurchase price was allocated between the fair value of the liability component and the fair value of the equity component of the convertible security. The portion of the repurchase price attributable to the equity component totaled $15.7 million and was recognized as a reduction of additional paid-in capital during the three months ended March 31, 2015. The remaining repurchase price was attributable to the liability component. The difference between this amount and the net carrying amount of the liability and debt issuance costs was reflected as a loss on extinguishment of debt in our condensed consolidated statement of operations. For the three months ended March 31, 2015, the loss on extinguishment of debt totaled $5.3 million, consisting principally of the write-off of unamortized debt discount.

As of March 31, 2015 and December 31, 2014, we had approximately $2.0 million and $2.3 million, respectively, of deferred financing costs from our Convertible Senior Notes, net of amortization, which is included in other assets on our condensed consolidated balance sheets.

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Conditions for Conversion

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

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

10. Loan Securitization/Sale Activities

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

Within the Investing and Servicing Segment, we originate commercial mortgage loans with the intent to sell these mortgage loans to VIEs for the purposes of securitization. These VIEs then issue CMBS that are collateralized in part by these assets, as well as other assets transferred to the VIE. In certain instances, we retain a subordinated interest in the VIE and serve as special servicer for the VIE. During the three months ended March 31, 2015 and 2014, we sold $464.6 million and $289.4 million, respectively, par value of loans held-for-sale from our conduit platform for their fair values of $482.0 million and $302.5 million, respectively. During the three months ended March 31, 2015 and 2014, the sale proceeds were used in part to repay $344.4 million and $217.0 million, respectively, of the outstanding balance of the repurchase agreements associated with these loans.

Within the Lending Segment (refer to Note 21), we originate or acquire loans and then subsequently sell a portion, which can be in various forms including first mortgages, A-Notes, senior participations and mezzanine loans. Typically, our motivation for entering into these transactions is to effectively create leverage on the subordinated position that we will retain and hold for investment. In certain instances, we continue to service the loan following its sale. The following table summarizes our loans sold and loans transferred as secured borrowings by the Lending

Segment net of expenses (in thousands):

	Loan Transfers Accounted for as Sales		Loan Transfers Accounted for as Secured Borrowings	
	Face Amount	Proceeds	Face Amount	Proceeds
For the Three Months Ended March 31,				
2015	$ 85,500	$ 85,121	$ —	$ —
2014	147,884	146,400	—	—

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11. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

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

Designated Hedges

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

In connection with our repurchase agreements, we have entered into eight outstanding interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of March 31, 2015, the aggregate notional amount of our interest rate swaps designated as cash flow hedges of interest rate risk totaled $100.6 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.56% to 2.23% of the notional amount to the counterparty and receive floating rate LIBOR. Our interest rate swaps designated as cash flow hedges of interest rate risk have maturities ranging from November 2015 to May 2021.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2015 and 2014 we did not recognize any hedge ineffectiveness in earnings.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable-rate debt. Over the next twelve months, we estimate that an additional $0.6 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 74 months.

Non-designated Hedges

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

We have entered into a series of forward contracts whereby we agreed to sell an amount of foreign currency for an agreed upon amount of USD at various dates through January 2018. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated loan investments.

As of March 31, 2015, we had 58 foreign exchange forward derivatives to sell pounds sterling (“GBP”) with a total notional amount of £288.0 million, 32 foreign exchange forward derivatives to sell Euros (“EUR”) with a total notional amount of €131.4 million, two foreign exchange forward derivatives to sell Swedish Krona (“SEK”) with a total notional of SEK 19.7 million, one foreign exchange forward derivative to buy SEK with a total notional of SEK 4.1 million, one foreign exchange forward derivative to sell Norwegian Krone (“NOK”) with a notional of NOK 1.3 million and one foreign exchange forward to sell Danish Krone (“DKK”) with a notional of DKK 3.2 million that were not

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designated as hedges in qualifying hedging relationships. Also as of March 31, 2015, there were 58 interest rate swaps where the Company is paying fixed rates, with maturities ranging from 2 to 10 years and a total notional amount of $445.9 million, three interest rate swaps where the Company is receiving fixed rates with maturities ranging from 1 to 10 years and a total notional of $12.3 million and eleven credit index instruments with a total notional amount of $40.0 million.

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

	Fair Value of Derivatives in an Asset Position(1) As of		Fair Value of Derivatives in a Liability Position(2) As of	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Derivatives designated as hedging instruments:				
Interest rate swaps	$ 30	$ 138	$ 389	$ 235
Total derivatives designated as hedging instruments	30	138	389	235
Derivatives not designated as hedging instruments:				
Interest rate swaps	1,037			