STARWOOD
PROPERTY TRUST

2019 ANNUAL REPORT

CALIFORNIA MARKET CENTER, LOS ANGELES, CA | *$525M First Mortgage and Mezzanine Loan*

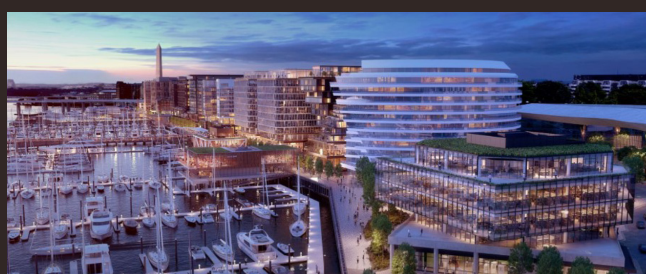

200 STOVALL STREET, ALEXANDRIA, VA


PASEO DE LA RIVIERA, THESIS HOTEL, CORAL GABLES, FL

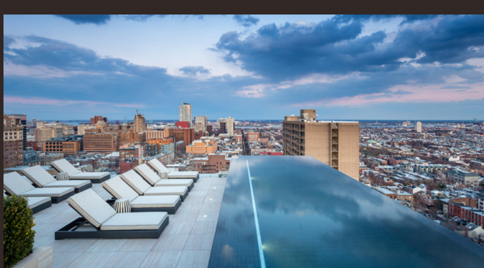

ANTHEM ROW, WASHINGTON, D.C.

THE NATIONAL, DALLAS, TX

AMERISOURCEBERGEN, CONSHOHOCKEN, PA


THE WHARF, WASHINGTON, D.C.


11 HOYT STREET, NEW YORK, NY


THE ATLANTIC, PHILADELPHIA, PA


BURLINGAME POINT, SAN FRANCISCO, CA


1310 N COURTHOUSE ROAD, ARLINGTON, VA


FAIRMONT SOUTHAMPTON, SOUTHAMPTON, BERMUDA


COPPERMINE COMMONS, HERNDON, VA


THE DALMAR, FORT LAUDERDALE, FL


1213 WALNUT STREET, PHILADELPHIA, PA

Starwood Property Trust, Inc.
591 West Putnam Avenue
Greenwich, Connecticut 06830

Shareholders of Starwood Property Trust,

We are writing this letter in March 2020[1], with the ultimate impact of the COVID-19 virus unknown, historic equity market volatility, and a historically low 10-year U.S. Treasury yield. We built and manage this company to outperform in all market cycles, including periods of distress. The measures we have taken to protect shareholder value are not obvious in bull markets, but we believe our dedication to risk management on both the asset and liability side of our balance sheet will offer shareholders a safe harbor during these turbulent times. As the largest and most diversified commercial real estate (CRE) finance company, we have unique options available to us.

- Our scale allows us to hold significant liquidity that we can utilize or deploy accretively during times of distress.
- We ended the year with over $9 billion of available capacity on our financing facilities.
- We have a large, owned, stable real estate portfolio which has a double digit cash yield and substantial unrealized gains.
- We continue to expand our off-balance sheet financing sources, which has significant structural advantages for us in times of credit distress. In 2019, we completed what was at the time the largest commercial real estate securitization (CLO) with the tightest financing spread and best in-class structure.
- We run our business conservatively, with lower leverage compared to our peers.
- We have over $3 billion in unencumbered assets, which we believe gives us the unique ability to raise corporate unsecured debt.
- Due to the floating rate nature of our loan book, we make more money when LIBOR rises, and because of LIBOR floors in our loan book, we expect to be even more profitable as LIBOR falls.
- The diversity of our business allows us to choose where to allocate investments as the relative value between markets and products changes.

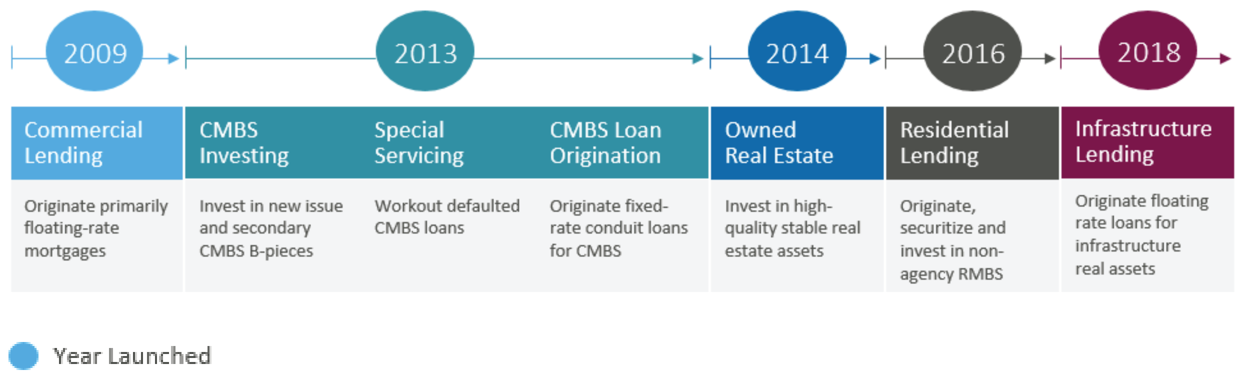
[1] Unless otherwise noted, all data in this letter is as of December 31, 2019.

Corporate Responsibility

Regarding our work on environmental, social and governance (ESG) initiatives in 2019, we are proud to report that Morgan Stanley Capital International (MSCI) recently upgraded our ESG rating to BBB, making us the leader in our peer group. The Corporate Responsibility section of our website discusses our positive social and environmental impact and highlights our large affordable housing portfolio, our strong diversity hiring statistics and our community involvement initiatives.

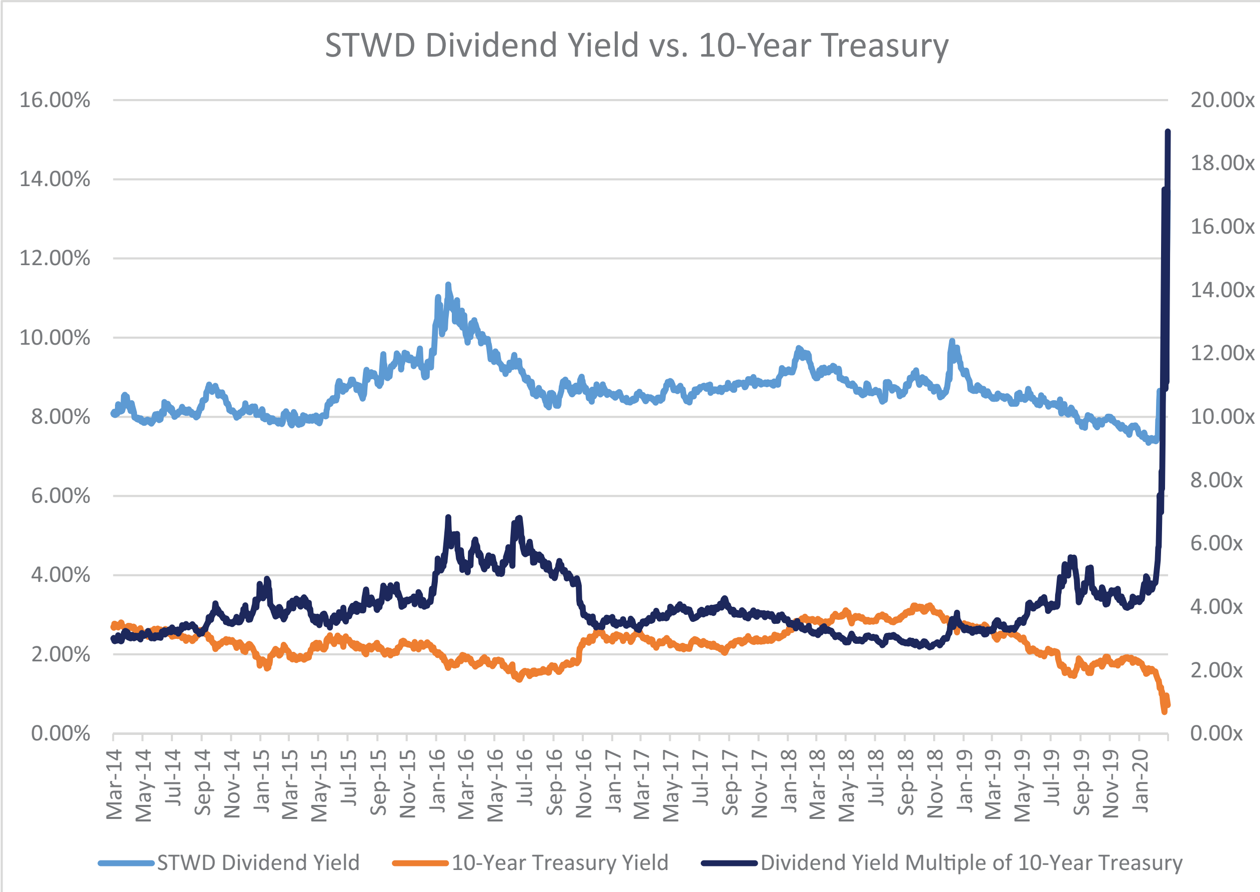
For the 6th year in a row we won the National Association of Real Estate Investment Trusts (NAREIT) Gold Investor CARE award for communicating and reporting excellence in our sector, and we believe keeping shareholders informed of what we are doing and why is one of the most important things management can do.

STWD Primary Investment Cylinders



We would like to thank our shareholders and partners, many of whom have been with us from the beginning, for trusting us as stewards of your capital as we have strategically diversified our company, and look for new ways to add shareholder value across the core competencies of our manager, Starwood Capital Group (SCG). We benefit from the over 4,000 professionals at SCG and their collective wisdom and experience over the firm's 29 year history.

We believe the proven consistent performance of our multi-cylinder business, our best-in-class leverage, the low loan-to-value (LTV) ratios of our loans, our diversified liability structure, and our embedded unrealized gains position us well to continue to outperform, both versus rates and versus our peers in the years to come.



Large Loan Lending

We experienced another strong originations year in 2019, and our CRE loan book which has an LTV ratio of 64% grew to over $9 billion for the first time. Although we care about volume of originations, we focus more on credit quality and the amount, structure and pricing of our liabilities. We try to finance ourselves in the most diverse and efficient manner each year.

Capital Markets

We feel the right side of our balance sheet also provides a competitive advantage. Our liabilities are the most diversified and the lowest cost in our history. With over $9 billion of warehouse line capacity and $3.2 billion of unencumbered assets on our balance sheet, we have extensive debt capacity. We believe the diversity of our liabilities allows us to borrow efficiently and therefore invest in higher-quality assets at the lowest possible leverage to achieve our targeted return threshold.

Property Portfolio

Our owned property portfolio once again performed well in 2019 and gives us significant predictable long-term cash flow. Earnings were higher due to rent increases in excess of our underwriting, financing costs were lower, and cap rates followed treasury rates lower, improving the average yield on our invested capital, which increased to a compelling 15%.

In the fourth quarter of 2019, we opportunistically sold our Ireland office portfolio in the fourth quarter at a significant gain. Our remaining property portfolio accounts for over $700 million of the unrealized gains of over $800 million that we believe exist within our business. More than $500 million of that gain is in our 99% occupied Florida multifamily portfolio, where we own approximately 15,000 units with rents tied to median income gains in their respective metropolitan statistical area (MSA).

Real Estate Investing & Servicing

Over the last nine quarters, we increased our named special servicing by 34% to $93 billion across 185 trusts. We believe our special servicer is significantly more profitable in times of distress and acts as a credit hedge for our business.

We took advantage of tighter spreads and lower interest rates to tactically reduce our owned CMBS book to just 4.4% of our assets versus 10.4% of our assets four years ago.

Our conduit originations business, Starwood Mortgage Capital, continues to be among the largest, best-performing non-bank loan originators with the lowest historic delinquency rate of the top non-bank originators post crisis. This business produces consistent earnings at a high return on equity, which expands our multiple-to-book value and creates long-term shareholder value.

Residential Lending

In 2019, we acquired over $2 billion of low LTV residential mortgage loans to high quality borrowers (as measured by an approximately 730 average FICO score) at attractive yields for their low risk profile. We recently completed our sixth securitization, and our transactions continue to price among the tightest liability spreads in the market, a testament to the quality of the platform we have built.

Starwood Infrastructure Finance

As we ramped up the capacity of this business in 2019, we entered into three financing facilities for a total of $1.5 billion. We took advantage of wider lending spreads to invest $640 million in the fourth quarter, which is well above our underwritten annual run rate, bringing our total originations and acquisitions for the year to $1.0 billion.

Outlook

We begin this new decade with the same investment philosophy in which we began the last… slow, steady and thoughtful. We would like to again thank our shareholders for their support, our Board of Directors for its leadership, and all of the dedicated employees at Starwood Property Trust and Starwood Capital Group for their hard work and expertise. We are proud of the company we have created together, and we will not rest on our laurels as we continue to explore opportunities in 2020 and beyond.

Yours very truly,

Barry S. Sternlicht
Chairman and Chief Executive Officer

Jeffrey F. DiModica, CFA
President

BOARD OF DIRECTORS & EXECUTIVE TEAM

BOARD OF DIRECTORS

Barry S. Sternlicht
Chairman & CEO
Starwood Capital Group & Starwood Property Trust

Jeffrey G. Dishner
Senior Managing Director & Global Head of Real Estate Acquisitions
Starwood Capital Group

Richard D. Bronson
Chairman
The Bronson Companies, LLC

Camille J. Douglas
Senior Managing Director, Acquisitions & Capital Markets
LeFrak

Solomon J. Kumin
Co-President
Leucadia Asset Management LLC

Fred S. Ridley
Partner
Foley & Lardner LLP

Strauss Zelnick
Founding Partner
ZMC, L.P.

EXECUTIVE TEAM

Barry S. Sternlicht
Chairman & CEO
Starwood Capital Group & Starwood Property Trust

Jeffrey F. DiModica, CFA
President & Managing Director
Starwood Property Trust

Rina Paniry
Chief Financial Officer
Starwood Property Trust

Andrew J. Sossen
Chief Operating Officer & General Counsel
Starwood Property Trust

HEADQUARTERS OFFICE

Starwood Property Trust
591 West Putnam Avenue
Greenwich, CT 06830
Phone: (203) 422-7700
www. starwoodpropertytrust.com

INVESTOR RELATIONS CONTACT

Zachary Tanenbaum
Starwood Property Trust
Phone: (203) 422-7788
ztanenbaum@starwood.com

TRANSFER AGENT

Computershare Trust Company, N.A.
PO Box 30170
College Station, TX 77842-3170
Within USA, US territories & Canada - Phone: (877) 373 6374
Outside USA, US territories & Canada - Phone: (781) 575 3100

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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2019
or
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-34436

Starwood Property Trust, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**27-0247747**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
591 West Putnam Avenue Greenwich, Connecticut	**06830**
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s telephone number, including area code **(203) 422-7700**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	STWD	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

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

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

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

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

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

As of June 28, 2019, the aggregate market value of the voting stock held by non-affiliates was $6,183,846,104 based on the reported last sale price of our common stock on June 28, 2019. Shares of our common stock held by affiliates, which includes officers and directors of the registrant, have been excluded from this calculation. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares of the issuer’s common stock, $0.01 par value, outstanding as of February 18, 2020 was 282,613,156.

DOCUMENTS INCORPORATED BY REFERENCE

Documents Incorporated By Reference: The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or prior to April 29, 2020.

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Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K (this “Form 10-K”) 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 are set forth under the caption “Risk Factors” in this report and include, but are not limited to:

- defaults by borrowers in paying debt service on outstanding indebtedness;
- impairment in the value of real estate property securing our loans or in which we invest;
- availability of mortgage origination and acquisition opportunities acceptable to us;
- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;
- our ability to integrate our prior acquisition of the project finance origination, underwriting and capital markets business of GE Capital Global Holdings, LLC into our business and to achieve the benefits that we anticipate from the acquisition;
- national and local economic and business conditions;
- general and local commercial and residential real estate property conditions;
- changes in federal government policies;
- changes in federal, state and local governmental laws and regulations;
- increased competition from entities engaged in mortgage lending and securities investing activities;
- changes in interest rates; and
- the availability of, and costs associated with, sources of liquidity.

In light of these risks and uncertainties, there can be no assurances that the results referred to in the forward-looking statements contained in this Form 10-K 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.

PART I

Item 1. Business.

The following description of our business should be read in conjunction with the information included elsewhere in this Form 10-K for the year ended December 31, 2019. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the results discussed in the forward-looking statements due to the factors set forth in "Risk Factors" and elsewhere in this Form 10-K. References in this Form 10-K to "we," "our," "us," or the "Company" refer to Starwood Property Trust, Inc. and its subsidiaries.

General

Starwood Property Trust, Inc. ("STWD" and, together with its subsidiaries, "we" or the "Company") is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering ("IPO"). We are focused primarily on originating, acquiring, financing and managing mortgage loans and other real estate investments in both the United States ("U.S.") and Europe. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have four reportable business segments as of December 31, 2019 and we refer to the investments within these segments as our target assets:

- Real estate commercial and residential lending (the "Commercial and Residential Lending Segment")—engages primarily in originating, acquiring, financing and managing commercial and residential first mortgages, subordinated mortgages, mezzanine loans, preferred equity, commercial mortgage-backed securities ("CMBS"), residential mortgage-backed securities ("RMBS") and other real estate and real estate-related debt investments in both the U.S. and Europe (including distressed or non-performing loans).

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

- Real estate property (the "Property Segment")—engages primarily in acquiring and managing equity interests in stabilized commercial real estate properties, including multifamily properties and commercial properties subject to net leases, that are held for investment.

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

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

On September 19, 2018 and October 15, 2018, we acquired the equity of GE Capital Global Holdings, LLC ("GE Capital") for approximately $2.2 billion (the "Infrastructure Lending Segment").

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

On April 19, 2013, we acquired the equity of LNR Property LLC ("LNR") and certain of its subsidiaries for $730.5 million. LNR represents our Investing and Servicing Segment.

We are organized and conduct our operations to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). As such, we will generally not be subject to U.S. federal corporate income tax on that portion of our net income that is distributed to stockholders if we distribute at least 90% of our taxable income to our stockholders by prescribed dates and comply with various other requirements. We also operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940 as amended (the "Investment Company Act" or "1940 Act").

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 by Mr. Sternlicht.

Our corporate headquarters office is located at 591 West Putnam Avenue, Greenwich, Connecticut 06830, and our telephone number is (203) 422-7700.

Investment Strategy

We seek to attain attractive risk-adjusted returns for our investors over the long term by sourcing and managing a diversified portfolio of target assets, financed in a manner that is designed to deliver attractive returns across a variety of market conditions and economic cycles. Our investment strategy focuses on a few fundamental themes:

- origination and acquisition of real estate debt assets with an implied basis sufficiently low to weather declines in asset values;
- acquisition of equity interests in commercial real estate properties that generate stable current returns, increase the duration of our investment portfolio and provide potential for capital appreciation;
- focus on real estate markets and asset classes with strong supply and demand fundamentals and/or barriers to entry;
- structuring and financing each transaction in a manner that reflects the risk of the underlying asset's cash flow stream and credit risk profile, and efficiently managing and maintaining the transaction's interest rate and currency exposures at levels consistent with management's risk objectives;
- seeking situations where our size, scale, speed and sophistication allow us to position ourselves as a "one-stop" lending solution for real estate owner/operators;
- utilizing the skills, expertise, and contacts developed by our Manager over the past 20 plus years as one of the premier global real estate investment managers to (i) correctly anticipate trends and identify attractive risk-adjusted investment opportunities in U.S. and European real estate markets; and (ii) expand and diversify our presence in various asset classes, including:
    - origination and acquisition of residential mortgage loans, including residential mortgage loans sometimes referred to as "non-qualified mortgages" or "non-QMs"; and
    - origination and acquisition of corporate and asset-backed loans;
- utilizing the skills, expertise and infrastructure we acquired through our acquisition of LNR, a market leading diversified real estate investment management and loan servicing company, to expand and diversify our presence in various segments of real estate, including:
    - origination of small and medium sized loan transactions ($10 million to $50 million) for both investment and securitization/gain-on-sale;
    - investment in CMBS;
    - investment in commercial real estate;

- special servicing of commercial real estate loans in commercial real estate securitization transactions; and

- utilizing the skills and expertise we acquired through our acquisition of the Infrastructure Lending Segment to expand our originations and acquisitions of infrastructure debt investments.

In order to capitalize on the changing sets of investment opportunities that may be present in the various points of an economic cycle, we may expand or refocus our investment strategy by emphasizing investments in different parts of the capital structure and different sectors of real estate. Our investment strategy may be amended from time to time, if recommended by our Manager and approved by our board of directors, without the approval of our stockholders. In addition to our Manager making direct investments on our behalf, we may enter into joint venture, management or other agreements with persons that have special expertise or sourcing capabilities.

Investment Guidelines

Our board of directors has adopted the following investment guidelines:

- our investments will be in our target assets unless otherwise approved by our board of directors;

- no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;

- no investment shall be made that would cause us or any of our subsidiaries to be required to be registered as an investment company under the 1940 Act;

- not more than 25% of our equity will be invested in any individual asset without the consent of a majority of our independent directors; and

- (a) any investment that is less than $150 million will require approval of our Chief Executive Officer; (b) any investment that is equal to or in excess of $150 million but less than $250 million will require approval of our Manager's investment committee; (c) any investment that is equal to or in excess of $250 million but less than $400 million will require approval of each of the investment committee of our board of directors and our Manager's investment committee; and (d) any investment that is equal to or in excess of $400 million will require approval of each of our board of directors and our Manager's investment committee.

These investment guidelines may be changed from time to time by our board of directors without the approval of our stockholders. In addition, both our Manager and our board of directors must approve any change in our investment guidelines that would modify or expand the types of assets in which we invest.

Investment Process

Our investment process includes sourcing and screening of investment opportunities, assessing investment suitability, conducting interest rate and prepayment analysis, evaluating cash flow and collateral performance, and reviewing legal structure and servicer and originator information and investment structuring, as appropriate, to seek an attractive return commensurate with the risk we are bearing. Upon identification of an investment opportunity, the investment will be screened and monitored by us to determine its impact on maintaining our REIT qualification and our exemption from registration under the 1940 Act. We will seek to make investments in sectors where we have strong core competencies and believe market risk and expected performance can be reasonably quantified.

We evaluate each one of our investment opportunities based on its expected risk-adjusted return relative to the returns available from other, comparable investments. In addition, we evaluate new opportunities based on their relative expected returns compared to comparable positions held in our portfolio. The terms of any leverage available to us for use in funding an investment purchase are also taken into consideration, as are any risks posed by illiquidity or correlations with other securities in the portfolio. We also develop a macro outlook with respect to each target asset class by examining factors in the broader economy such as gross domestic product, interest rates, unemployment rates and availability of credit, among other things. We also analyze fundamental trends in the relevant target asset class sector to adjust/maintain our outlook for that particular target asset class.

Financing Strategy

Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exemption from registering under the 1940 Act, we may finance the acquisition of our target assets, to the extent available to us, through the following methods:

- sources of private and government sponsored financing, including long and short-term repurchase agreements, warehouse and bank credit facilities, and mortgage loans on equity interests in commercial real estate properties;

- loan sales, syndications and/or securitizations; and

- public or private offerings of our equity and/or debt securities.

We may also utilize other sources of financing to the extent available to us.

Our Target Assets

We invest in target assets secured primarily by U.S. or European collateral. We focus primarily on originating or opportunistically acquiring commercial mortgage whole loans, B-Notes, mezzanine loans, preferred equity and mortgage-backed securities ("MBS"). We may invest in performing and non-performing mortgage loans and other real estate-related loans and debt investments. We may acquire target assets through portfolio acquisitions or other types of acquisitions. Our Manager targets desirable markets where it has expertise in the real estate collateral underlying the assets being acquired. Our target assets include the following types of loans and other investments:

- *Whole mortgage loans:* loans secured by a first mortgage lien on a commercial property that provide mortgage financing to commercial property developers or owners generally having maturity dates ranging from three to ten years;

- *B-Notes:* typically a privately negotiated loan that is secured by a first mortgage on a single large commercial property or group of related properties and subordinated to an A Note secured by the same first mortgage on the same property or group;

- *Mezzanine loans:* loans made to commercial property owners that are secured by pledges of the borrower's ownership interests in the property and/or the property owner, subordinate to whole mortgage loans secured by first or second mortgage liens on the property and senior to the borrower's equity in the property;

- *Construction or rehabilitation loans:* mortgage loans and mezzanine loans to finance the cost of construction or rehabilitation of a commercial property;

- *CMBS:* securities that are collateralized by commercial mortgage loans, including:

    - senior and subordinated investment grade CMBS,

    - below investment grade CMBS, and

    - unrated CMBS;

- *Corporate bank debt:* term loans and revolving credit facilities of commercial real estate operating or finance companies, each of which are generally secured by such companies' assets;

- *Equity:* equity interests in commercial real estate properties, including commercial properties purchased from CMBS trusts;

- *Corporate bonds:* debt securities issued by commercial real estate operating or finance companies that may or may not be secured by such companies' assets, including:
    - investment grade corporate bonds,
    - below investment grade corporate bonds, and
    - unrated corporate bonds;
- *Non-Agency RMBS:* securities collateralized by residential mortgage loans that are not guaranteed by any U.S. Government agency or federally chartered corporation;
- *Residential mortgage loans:* loans secured by a first mortgage lien on residential property;
- *Infrastructure loans:* senior secured project finance loans and senior secured project finance investment securities secured by power generation facilities and midstream and downstream oil and gas assets; and
- *Net leases:* commercial properties subject to net leases, which leases typically have longer terms than gross leases, require tenants to pay substantially all of the operating costs associated with the properties and often have contractually specified rent increases throughout their terms.

In addition, we may invest in the following real estate-related investments:

- *Agency RMBS:* RMBS for which a U.S. government agency or a federally chartered corporation guarantees payments of principal and interest on the securities.

Business Segments

We currently operate our business in four reportable segments: the Commercial and Residential Lending Segment, the Infrastructure Lending Segment, the Property Segment and the Investing and Servicing Segment. Refer to Note 23 to the consolidated financial statements included herein (the "Consolidated Financial Statements") for our results of operations and financial position by business segment.

Commercial and Residential Lending Segment

The following table sets forth the amount of each category of investments we owned across various property types within our Commercial and Residential Lending Segment as of December 31, 2019 and 2018 (dollars in thousands):

	Face Amount	Carrying Value	Asset Specific Financing	Net Investment	Vintage	Unlevered Return on Asset
December 31, 2019						
First mortgages (1)	$ 7,961,494	$ 7,926,732	$ 4,715,244	$ 3,211,488	1998-2019	6.4 %
Subordinated mortgages	77,055	75,724	—	75,724	1998-2019	9.5 %
Mezzanine loans (1)	484,408	484,164	—	484,164	2013-2019	12.2 %
Residential loans, fair value option	654,925	671,572	425,423	246,149	2013-2019	5.9 %
Other loans	66,525	62,555	—	62,555	1999-2018	8.9 %
Loans held-for-sale, fair value option, residential	587,144	605,384	454,223	151,161	2015-2019	5.9 %
Loan loss allowance	—	(33,415)	—	(33,415)	N/A	
RMBS, available-for-sale	278,853	189,576	102,073	87,503	2003-2007	12.3 %
RMBS, fair value option	87,397	147,034 (2)	32,292	114,742	2018-2019	10.2 %
CMBS, fair value option	118,249	118,215 (2)	58,801	59,414	2018	5.5 %
HTM debt securities (3)	527,338	525,485	178,880	346,605	2014-2019	7.1 %
Equity security	12,119	12,664	—	12,664	N/A	
Investment in unconsolidated entities	N/A	46,921	—	46,921	N/A	
Properties, net	N/A	26,834	—	26,834	N/A	
	$ 10,855,507	$ 10,859,445	$ 5,966,936	$ 4,892,509		
December 31, 2018						
First mortgages (1)	$ 6,627,879	$ 6,603,760	$ 3,542,214	$ 3,061,546	1997-2018	7.0 %
Subordinated mortgages	53,996	52,778	—	52,778	1998-2018	9.4 %
Mezzanine loans (1)	394,739	393,832	—	393,832	2005-2018	11.6 %
Other loans	64,658	61,001	—	61,001	1999-2018	9.1 %
Loans held-for-sale, fair value option, residential	609,571	623,660	499,756	123,904	2013-2018	6.1 %
Loans held-for-sale, commercial	48,667	46,495	30,525	15,970	2018	6.3 %
Loans transferred as secured borrowings	74,692	74,346	74,239	107	N/A	
Loan loss allowance	—	(39,151)	—	(39,151)	N/A	
RMBS, available-for-sale	309,497	209,079	44,070	165,009	2003-2007	11.7 %
RMBS, fair value option	62,397	87,879 (2)	13,179	74,700	2018	8.0 %
CMBS, fair value option	160,198	158,688 (2)	83,864	74,824	2018	6.7 %
HTM debt securities (3)	585,017	583,381	191,991	391,390	2014-2018	7.5 %
Equity security	11,660	11,893	—	11,893	N/A	
Investment in unconsolidated entities	N/A	35,274	—	35,274	N/A	
	$ 9,002,971	$ 8,902,915	$ 4,479,838	$ 4,423,077		

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(1) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan. The

application of this methodology resulted in mezzanine loans with carrying values of $967.0 million and $1.0 billion being classified as first mortgages as of December 31, 2019 and 2018, respectively.

(2) Eliminated in consolidation against VIE liabilities pursuant to Accounting Standards Codification ("ASC") 810.

(3) CMBS held-to-maturity ("HTM") and mandatorily redeemable preferred equity interests in commercial real estate entities.

As of December 31, 2019 and 2018, our Commercial and Residential Lending Segment's investment portfolio, excluding residential loans, RMBS, properties and other investments, had the following characteristics based on carrying values:

	As of December 31,	
Collateral Property Type	**2019**	**2018**
Office	37.8 %	35.0 %
Hotel	20.9 %	23.5 %
Mixed Use	13.0 %	11.9 %
Multifamily	12.6 %	15.4 %
Residential	8.5 %	4.9 %
Retail	3.3 %	2.4 %
Industrial	0.7 %	1.7 %
Other	3.2 %	5.2 %
	100.0 %	100.0 %

	As of December 31,	
Geographic Location	**2019**	**2018**
U.S. Regions:		
North East	27.5 %	28.7 %
West	22.2 %	22.7 %
South West	10.7 %	14.0 %
Mid Atlantic	8.3 %	6.8 %
South East	7.9 %	9.9 %
Midwest	4.1 %	6.9 %
International:		
Europe/Australia	16.2 %	7.8 %
Bahamas/Bermuda	3.1 %	3.2 %
	100.0 %	100.0 %

Our primary focus has been to build a portfolio of commercial mortgage and mezzanine loans with attractive risk-adjusted returns by focusing on the underlying real estate fundamentals and credit analysis of the borrowers. We continually monitor borrower performance and complete a detailed, loan-by-loan formal credit review on a quarterly basis. The results of this review are incorporated into our quarterly assessment of the adequacy of the allowance for loan losses.

As of December 31, 2019, commercial loans held-for-investment and HTM securities had a weighted-average expected maturity of 2.0 years, inclusive of extension options that management believes are probable of exercise.

Infrastructure Lending Segment

The following table sets forth the amount of each category of investments we owned within our Infrastructure Lending Segment as of December 31, 2019 and 2018 (dollars in thousands):

	Face Amount	Carrying Value	Asset Specific Financing	Net Investment	Unlevered Return on Asset
December 31, 2019					
First priority infrastructure loans and HTM securities	$ 1,474,052	$ 1,442,601	$ 1,121,065	$ 321,536	6.4 %
Loans held-for-sale, infrastructure	121,271	119,724	96,001	23,723	5.1 %
Loan loss allowance	N/A	(196)	—	(196)	
Investment in unconsolidated entities	N/A	25,862	—	25,862	
	$ 1,595,323	$ 1,587,991	$ 1,217,066	$ 370,925	
December 31, 2018					
First priority infrastructure loans and HTM securities	$ 1,537,412	$ 1,517,547	$ 1,130,567	$ 386,980	5.9 %
Loans held-for-sale, infrastructure	486,909	469,775	393,984	75,791	3.6 %
	$ 2,024,321	$ 1,987,322	$ 1,524,551	$ 462,771	

As of December 31, 2019 and 2018, our Infrastructure Lending Segment's investment portfolio had the following characteristics based on carrying values:

	As of December 31,	
Collateral Type	**2019**	**2018**
Natural gas power	72.6 %	54.3 %
Midstream/downstream oil & gas	12.8 %	9.3 %
Renewable power	10.6 %	30.8 %
Other thermal power	4.0 %	5.1 %
Upstream oil & gas	— %	0.5 %
	100.0 %	100.0 %

	As of December 31,	
Geographic Location	**2019**	**2018**
U.S. Regions:		
North East	43.9 %	32.8 %
Midwest	25.5 %	15.9 %
South West	12.6 %	12.9 %
South East	4.8 %	3.4 %
West	4.2 %	4.7 %
Mid-Atlantic	4.0 %	4.6 %
International:		
Mexico	2.9 %	12.5 %
United Kingdom	— %	4.7 %
Ireland	— %	2.4 %
Other	2.1 %	6.1 %
	100.0 %	100.0 %

As of December 31, 2019, the Infrastructure Lending Segment's first priority infrastructure loans and HTM securities had a weighted-average contractual maturity of 5.2 years.

Property Segment

The following table sets forth the amount of each category of investments, which are comprised of properties, intangible lease assets and liabilities and our equity investment in four regional shopping malls (the "Retail Fund") held within our Property Segment as of December 31, 2019 and 2018 (amounts in thousands):

	December 31, 2019	December 31, 2018
Properties, net	$ 2,029,024	$ 2,512,847
Lease intangibles, net	44,986	87,729
Investment in unconsolidated entities	—	114,362
	$ 2,074,010	$ 2,714,938

The following table sets forth our net investment and other information regarding the Property Segment's properties and intangible lease assets and liabilities as of December 31, 2019 (dollars in thousands):

	Carrying Value	Asset Specific Financing	Net Investment	Occupancy Rate	Weighted Average Remaining Lease Term
Office—Medical Office Portfolio	$ 759,879	$ 590,858	$ 169,021	91.6 %	6.4 years
Multifamily residential—Woodstar I Portfolio	629,503	478,194	151,309	98.3 %	0.5 years
Multifamily residential—Woodstar II Portfolio	605,527	436,885	168,642	99.2 %	0.5 years
Retail—Master Lease Portfolio	343,790	192,397	151,393	100.0 %	22.3 years
Subtotal—undepreciated carrying value	2,338,699	1,698,334	640,365		
Accumulated depreciation and amortization	(264,689)	—	(264,689)		
Net carrying value	$2,074,010	$ 1,698,334	$ 375,676		

See Note 7 to the Consolidated Financial Statements for a description of the above-referenced Property Segment Portfolios.

As of December 31, 2019 and 2018, our Property Segment's investment portfolio had the following geographic characteristics based on carrying values:

Geographic Location	As of December 31, 2019	2018
U.S. Regions:		
South East	62.0 %	50.8 %
South West	10.3 %	8.6 %
Midwest	10.1 %	8.3 %
North East	9.7 %	8.1 %
West	7.9 %	6.5 %
Ireland	— %	17.7 %
	100.0 %	100.0 %

Refer to Schedule III included in Item 8 of this Form 10-K for a detailed listing of the properties held by the Company, including their respective geographic locations.

Investing and Servicing Segment

The following table sets forth the amount of each category of investments we owned within our Investing and Servicing Segment as of December 31, 2019 and 2018 (amounts in thousands):

	Face Amount	Carrying Value	Asset Specific Financing	Net Investment
December 31, 2019				
CMBS, fair value option	$ 2,897,654	$ 1,177,148 (1)	$ 300,705	$ 876,443
Intangible assets - servicing rights	N/A	43,164 (2)	—	43,164
Lease intangibles, net	N/A	20,060	—	20,060
Loans held-for-sale, fair value option, commercial	160,635	159,238	85,873	73,365
Loans held-for-investment	1,294	1,294	—	1,294
Investment in unconsolidated entities	N/A	32,183 (3)	—	32,183
Properties, net	N/A	210,582	187,929	22,653
	$ 3,059,583	$ 1,643,669	$ 574,507	$ 1,069,162
December 31, 2018				
CMBS, fair value option	$ 2,872,381	$ 998,820 (1)	$ 320,158	$ 678,662
Intangible assets - servicing rights	N/A	44,632 (2)	—	44,632
Lease intangibles, net	N/A	29,327	—	29,327
Loans held-for-sale, fair value option, commercial	46,249	47,622	34,105	13,517
Loans held-for-investment	3,357	3,357	—	3,357
Investment in unconsolidated entities	N/A	44,129 (3)	—	44,129
Properties, net	N/A	272,043	230,995	41,048
	$ 2,921,987	$ 1,439,930	$ 585,258	$ 854,672

(1) Includes $1.1 billion and $957.5 million of CMBS eliminated in consolidation against VIE liabilities pursuant to ASC 810 as of December 31, 2019 and 2018, respectively. Also includes $186.6 million and $8.4 million of non-controlling interests in the consolidated entities which hold certain of these CMBS as of December 31, 2019 and 2018, respectively.

(2) Includes $26.2 million and $24.1 million of servicing rights intangibles eliminated in consolidation against VIE assets pursuant to ASC 810 as of December 31, 2019 and 2018, respectively.

(3) Includes $20.6 million and $22.0 million of investment in unconsolidated entities eliminated in consolidation against VIE assets pursuant to ASC 810 as of December 31, 2019 and 2018, respectively

As of December 31, 2019, the Investing and Servicing Segment's CMBS had a weighted-average expected maturity of 7.8 years.

Our Investing and Servicing Segment Property Portfolio (the "REIS Equity Portfolio"), as described in Note 3 to the Consolidated Financial Statements, had the following characteristics based on carrying values of $214.9 million and $284.7 million as of December 31, 2019 and 2018, respectively:

Property Type	As of December 31, 2019	As of December 31, 2018
Office	52.7 %	56.5 %
Retail	28.8 %	24.1 %
Multifamily	6.5 %	7.8 %
Mixed Use	5.8 %	5.1 %
Self-storage	3.9 %	4.5 %
Hotel	2.3 %	2.0 %
	100.0 %	100.0 %

Geographic Location	As of December 31, 2019	As of December 31, 2018
South East	22.6 %	37.9 %
North East	22.6 %	22.4 %
South West	22.0 %	18.0 %
West	13.5 %	9.8 %
Midwest	10.9 %	6.8 %
Mid Atlantic	8.4 %	5.1 %
	100.0 %	100.0 %

Regulation

Our operations are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (1) regulate credit granting activities; (2) establish maximum interest rates, finance charges and other charges; (3) require disclosures to customers; (4) govern secured transactions; (5) set collection, foreclosure, repossession and claims handling procedures and other trade practices; and (6) regulate affordable housing rental activities. Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies, and require licensing of lenders and financiers and adequate disclosure of certain contract terms. We are also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans and the Fair Housing Act. We intend to conduct our business so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act.

Competition

We are engaged in a competitive business. In our investment activities, we compete for opportunities with numerous public and private investment vehicles, including financial institutions, specialty finance companies, mortgage banks, pension funds, opportunity funds, hedge funds, insurance companies, REITs and other institutional investors, as well as individuals. Many competitors are significantly larger than we are, have well established operating histories and may have greater access to capital, more resources and other advantages over us. These competitors may be willing to accept lower returns on their investments or to compromise underwriting standards and, as a result, our origination volume and profit margins could be adversely affected.

Our Manager

We are externally managed and advised by our Manager and benefit from the personnel, relationships and experience of our Manager's executive team and other personnel of Starwood Capital Group. Pursuant to the terms of a management agreement between our Manager and us, our Manager provides us with our management team and appropriate support personnel. Pursuant to an investment advisory agreement between our Manager and Starwood Capital Group Management, LLC, our Manager has access to the personnel and resources of Starwood Capital Group necessary for the implementation and execution of our business strategy.

Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht. Starwood Capital Group has invested in most major classes of real estate, directly and indirectly, through operating companies, portfolios of properties and single assets, including multifamily, office, retail, hotel, residential entitled land and communities, senior housing, mixed-use and golf courses. Starwood Capital Group invests at different levels of the capital structure, including equity, preferred equity, mezzanine debt and senior debt, depending on the asset risk profile and return expectation.

Our Manager draws upon the experience and expertise of Starwood Capital Group's team of professionals and support personnel operating in 16 cities across seven countries. Our Manager also benefits from Starwood Capital Group's dedicated asset management group operating in offices located in the U.S. and abroad. We also benefit from Starwood Capital Group's portfolio management, finance and administration functions, which address legal, compliance, investor relations and operational matters, asset valuation, risk management and information technologies in connection with the performance of our Manager's duties.

Employees

As of December 31, 2019, the Company had 296 full-time employees, the majority of which are real estate professionals located throughout the U.S.

Taxation of the Company

We have elected to be taxed as a REIT under the Code for federal income tax purposes. We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Code, which relate to organizational structure, diversity of stock ownership and certain restrictions with regard to owned assets and categories of income. If we qualify for taxation as a REIT, we will generally not be subject to U.S. federal corporate income tax on our taxable income that is currently distributed to stockholders.

Even if we qualify as a REIT, we may be subject to certain federal excise taxes and state and local taxes on our income and property. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and will not be able to qualify as a REIT for four subsequent taxable years.

We utilize taxable REIT subsidiaries ("TRSs") to conduct certain activities that would generate non-qualifying income or income subject to the prohibited transaction tax if earned directly by the REIT, and to hold certain assets that would represent non-qualifying assets if held directly by the REIT. In most cases, income associated with a TRS is fully taxable because a TRS is classified as a regular corporation for income tax purposes.

See Item 1A—"Risk Factors—Risks Related to Our Taxation as a REIT" for additional tax status information.

Leverage Policies

Refer to Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Leverage Policies."

Available Information

Our website address is www.starwoodpropertytrust.com. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other filings as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"), and also make available on our website the charters for the Audit, Compensation and Nominating and Corporate Governance Committees of our board of directors and our Code of Business Conduct and Ethics and Code of Ethics for Principal Executive Officer and Senior Financial Officers, as well as our corporate governance guidelines. Copies in print of these documents are available upon request to our Corporate Secretary at the address indicated on the cover of this report. The information on our website is not a part of, nor is it incorporated by reference into, this Form 10-K. Any material we file with or furnish to the SEC is also maintained on the SEC website (http://www.sec.gov).

We intend to post on our website any amendment to, or waiver of, a provision of our Code of Business Conduct and Ethics or Code of Ethics for Principal Executive Officer and Senior Financial Officers that applies to our Chief Executive Officer, Chief Financial Officer or persons performing similar functions and that relates to any element of the code of ethics definition set forth in Item 406 of Regulation S-K of the Securities Act of 1933, as amended.

To communicate with our board of directors electronically, we have established an e-mail address, BoardofDirectors@stwdreit.com, to which stockholders may send correspondence to our board of directors or any such individual directors or group or committee of directors.

Item 1A. Risk Factors.

Risks Related to Our Relationship with Our Manager

We are dependent on Starwood Capital Group, including our Manager and their key personnel, who provide services to us through the management agreement, and we may not find a suitable replacement for our Manager and Starwood Capital Group if the management agreement is terminated, or for these key personnel if they leave Starwood Capital Group or otherwise become unavailable to us.

Our Manager has significant discretion as to the implementation of our investment and operating policies and strategies. Accordingly, we believe that our success depends to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the officers and key personnel of our Manager. The officers and key personnel of our Manager evaluate, negotiate, close and monitor a substantial portion of our investments; therefore, our success depends on their continued service. The departure of any of the officers or key personnel of our Manager could have a material adverse effect on our performance.

We offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager's officers and key personnel. The initial term of our management agreement with our Manager, and the initial term of the investment advisory agreement between our Manager and Starwood Capital Group Management, LLC, expired on August 17, 2012, with automatic one-year renewals thereafter; provided, however, that our Manager may terminate the management agreement annually upon 180 days prior notice. If the management agreement and the investment advisory agreement are terminated and no suitable replacement is found to manage us, we may not be able to continue to execute our business plan.

There are various conflicts of interest in our relationship with Starwood Capital Group, including our Manager, which could result in decisions that are not in the best interests of our stockholders.

We are subject to conflicts of interest arising out of our relationship with Starwood Capital Group, including our Manager. Specifically, Mr. Sternlicht, our Chairman and Chief Executive Officer, Jeffrey G. Dishner, one of our directors, and certain of our executive officers are executives of Starwood Capital Group.

Our Manager and executive officers may have conflicts between their duties to us and their duties to, and interests in, Starwood Capital Group and its other investment funds. From time to time, one or more private investment funds sponsored by Starwood Capital Group (collectively, "Starwood Private Real Estate Funds") may be subject to exclusivity provisions that require all or a portion of investment opportunities related to real estate to be allocated to such Starwood Private Real Estate Funds rather than to us. Subject to the provisions of the co-investment and allocation agreement as described in the next paragraph, there can be no assurance that future Starwood Private Real Estate Funds would not be subject to such exclusivity requirements and, as a result, they may acquire investment opportunities that would not be available to us. Our independent directors do not approve each co-investment made by the Starwood Private Real Estate Funds and us unless the amount of capital we invest in the proposed co-investment otherwise requires the review and approval of our independent directors pursuant to our investment guidelines. Pursuant to the exclusivity provisions of the Starwood Private Real Estate Funds, our investment strategy may not include either (i) equity interests in real estate or (ii) "near-to-medium-term loan to own" investments, in each case (of both (i) and (ii)) if such investments are expected, at the time such investment is made, to produce an internal rate of return ("IRR") within the target return threshold specified in the governing documents of one or more Starwood Private Real Estate Funds. Therefore, our board of directors does not have the flexibility to expand our investment strategy to include equity interests in real estate or "near-term loan to own" investments with such an IRR expectation.

Our Manager, Starwood Capital Group and their respective affiliates may sponsor or manage a U.S. publicly traded investment vehicle that invests generally in real estate assets but not primarily in our "target assets" (as defined in our co-investment and allocation agreement) (a "potential competing vehicle"). Our Manager and Starwood Capital Group have also agreed in our co-investment and allocation agreement that for so long as the management agreement is in effect and our Manager and Starwood Capital Group are under common control, no entity controlled by Starwood Capital Group will sponsor or manage a potential competing vehicle unless Starwood Capital Group adopts a policy that either (i) provides for the fair and equitable allocation of investment opportunities in our "target assets" (as defined in our co-investment and allocation agreement) among all such vehicles and us or (ii) provides us the right to co-invest with respect to any "target assets" (as defined in our co-investment and allocation agreement) with such vehicles, in each case subject to the suitability of each investment opportunity for the particular vehicle and us and each such vehicle's and our availability of cash for investment. To the extent that there is overlap between our investment program and that of a Starwood Private Real Estate Fund, a fair and equitable allocation policy may involve a co-investment between us and such Starwood Private Real Estate Fund or a chronological rotation between us and such Starwood Private Real Estate Fund. Although Starwood Capital Group has adopted such an investment allocation policy, Starwood Capital Group has some discretion as to how investment opportunities are allocated. As a result, we may either not be presented with the opportunity to participate in these investments or may be limited in our ability to invest.

Our board of directors has adopted a policy with respect to any proposed investments by our directors or officers or the officers of our Manager, which we refer to as the covered persons, in any of our target asset classes. This policy provides that any proposed investment by a covered person for his or her own account in any of our target asset classes will be permitted if the capital required for the investment does not exceed the personal investment limit. To the extent that a proposed investment exceeds the personal investment limit, we expect that our board of directors will only permit the covered person to make the investment (i) upon the approval of the disinterested directors or (ii) if the proposed investment otherwise complies with terms of any other related party transaction policy our board of directors has adopted. Subject to compliance with all applicable laws, these individuals may make investments for their own account in our target assets which may present certain conflicts of interest not addressed by our current policies.

We pay our Manager substantial base management fees regardless of the performance of our portfolio. Our Manager's entitlement to a base management fee, which is not based upon performance metrics or goals, might reduce its incentive to devote its time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. This in turn could hurt both our ability to make distributions to our stockholders and the market price of our common stock.

Excluding our operating subsidiaries, we do not have any employees except for Andrew Sossen, our Chief Operating Officer, Executive Vice President, General Counsel and Chief Compliance Officer, and Rina Paniry, our Chief Financial Officer, Treasurer and Chief Accounting Officer, whom Starwood Capital Group has seconded to us exclusively. Mr. Sossen and Ms. Paniry are also employees of other entities affiliated with our Manager and, as a result, are subject to potential conflicts of interest in service as our employees and as employees of such entities.

The management agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.

Certain of our executive officers and two of our seven directors are executives of Starwood Capital Group. Our management agreement with our Manager was negotiated between related parties 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 with our Manager without cause is difficult and costly. Our independent directors will review our Manager's performance and the management fees annually and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors based upon: (i) our Manager's unsatisfactory performance that is materially detrimental to us or (ii) a determination that the management fees payable to our Manager are not fair, subject to our Manager's right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of our independent directors. Our Manager will be provided 180 days prior notice of any such a termination. Additionally, upon such a termination, the management agreement provides that we will pay our Manager a termination fee equal to three times the sum of the average annual base management fee and incentive fee received by our Manager during the prior 24-month period before such termination, calculated as of the end of the most recently completed fiscal quarter. These provisions may increase the cost to us of terminating the management agreement and adversely affect our ability to terminate our Manager without cause.

The initial term of our management agreement with our Manager, and the initial term of the investment advisory agreement between our Manager and Starwood Capital Group Management, LLC, expired on August 17, 2012, with automatic one-year renewals thereafter; provided, however, that our Manager may terminate the management agreement annually upon 180 days prior notice. If the management agreement is terminated and no suitable replacement is found to manage us, we may not be able to continue to execute our business plan.

Pursuant to the management agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual, as opposed to a fiduciary, relationship with us. Under the terms of the management agreement, our Manager, its officers, members, personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the management agreement. In addition, we have agreed to indemnify our Manager, its officers, stockholders, members, managers, directors, personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts or omissions of our Manager 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.

The incentive fee payable to our Manager under the management agreement is payable quarterly and is based on our Core Earnings and, therefore, may cause our Manager to select investments in more risky assets to increase its incentive compensation.

Our Manager is entitled to receive incentive compensation based upon our achievement of targeted levels of Core Earnings. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on Core Earnings may lead our Manager to place undue emphasis on the maximization of Core Earnings at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

Core Earnings is not a measure calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP") and is defined within Item 7 – Non-GAAP Financial Measures in this Form 10-K.

Our conflicts of interest policy may not adequately address all of the conflicts of interest that may arise with respect to our investment activities and also may limit the allocation of investments to us.

In order to avoid any actual or perceived conflicts of interest with our Manager, Starwood Capital Group, any of their affiliates or any investment vehicle sponsored or managed by Starwood Capital Group or any of its affiliates, which we refer to as the Starwood parties, we have adopted a conflicts of interest policy to specifically address some of the conflicts relating to our investment opportunities. Although under this policy the approval of a majority of our independent directors is required to approve (i) any purchase of our assets by any of the Starwood parties and (ii) any purchase by us of any assets of any of the Starwood parties, this policy may not be adequate to address all of the conflicts that may arise or may not address such conflicts in a manner that results in the allocation of a particular investment opportunity to us or is otherwise favorable to us. In addition, the Starwood Private Real Estate Funds currently, and additional competing vehicles may in the future, participate in some of our investments, possibly at a more senior level in the capital structure of the underlying borrower and related real estate than our investment. Our interests in such investments may also conflict with the interests of these entities in the event of a default or restructuring of the investment. Participating investments will not be the result of arm's length negotiations and will involve potential conflicts between our interests and those of the other participating entities in obtaining favorable terms. Since certain of our executives are also executives of Starwood Capital Group, the same personnel may determine the price and terms for the investments for both us and these entities and any procedural protections, such as obtaining market prices or other reliable indicators of fair value, may not prevent the consideration we pay for these investments from exceeding their fair value or ensure that we receive terms for a particular investment opportunity that are as favorable as those available from an independent third party.

Our board of directors has approved very broad investment guidelines for our Manager and does not approve each investment and financing decision made by our Manager unless required by our investment guidelines.

Our Manager is authorized to follow very broad investment guidelines which enable our Manager to make investments on our behalf in a wide array of assets. Our board of directors will periodically review our investment guidelines and our investment portfolio but will not, and will not be required to, review all of our proposed investments, except that any investment that is equal to or in excess of $250 million but less than $400 million will require approval of the investment committee of our board of directors and any investment that is equal to or in excess of $400 million will require approval of our board of directors. In addition, in conducting periodic reviews, our board of directors may rely and may make investments through affiliates primarily on information provided to them by our Manager. Furthermore, our Manager may use complex strategies, and transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager (or such affiliates) has great latitude within the broad parameters of our investment guidelines in determining the types and amounts of target assets it decides are attractive investments for us, which could result in investment returns that are substantially below expectations or that result in losses, which would materially and adversely affect our business operations and results. Further, decisions made and investments and financing arrangements entered into by our Manager may not fully reflect the best interests of our stockholders.

New investments may not be profitable (or as profitable as we expect), may increase our exposure to certain industries, may increase our exposure to interest rate, foreign currency, real estate market or credit market fluctuations, may divert managerial attention from more profitable opportunities and may require significant financial resources. A change in our investment strategy may also increase any guarantee obligations we agree to incur or increase the number of transactions we enter into with affiliates. Moreover, new investments may present risks that are difficult for us to adequately assess, given our lack of familiarity with a particular type of investment. The risks related to new investments or the financing risks associated with such investments could adversely affect our results of operations, financial condition and liquidity, and could impair our ability to make distributions to our stockholders.

Risks Related to Our Company

Our board of directors has in the past and may in the future at any time change one or more of our investment strategy or guidelines, financing strategy or leverage policies without stockholder consent.

Our board of directors has in the past and may in the future at any time change one or more of our investment strategy or guidelines, financing strategy or leverage policies with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions without the consent of our stockholders, which could result in an investment portfolio with a different risk profile. Any change in our investment strategy may increase our exposure to interest rate risk, default risk and real estate market fluctuations. These changes could adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

We are highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to make distributions to our stockholders.

Our network systems and storage applications, and those systems and storage and other business applications maintained by our third party providers, may be subject to attempts to gain unauthorized access, breach, malfeasance or other system disruptions. In some cases, it is difficult to anticipate or to detect immediately such incidents and the damage caused thereby. While we continually work to safeguard our internal network systems and validate the security of our third party providers, including through information security policies and employee awareness and training, such actions may not be sufficient to prevent cyber-attacks or security breaches. The loss, disclosure or misappropriation of, or unauthorized access to, information or the Company’s failure to meet its obligations could result in legal claims or proceedings, penalties and remediation costs. A significant data breach or the Company’s failure to meet its obligations may adversely affect the Company’s reputation, business, results of operations and financial condition.

In particular, our business is highly dependent on the communications and information systems of Starwood Capital Group. Any failure or interruption of Starwood Capital Group's systems could cause delays or other problems, which could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to make distributions to our stockholders.

Terrorist attacks and other acts of violence or war may affect the real estate industry and our business, financial condition and results of operations.

Any terrorist attacks, the anticipation of any such attacks, the consequences of any military or other response by the U.S. and its allies and other armed conflicts could disrupt the U.S. financial markets, including the real estate capital markets, and negatively impact the U.S. and global economy in general, including a decrease in consumer confidence and spending. The economic impact of these events could also adversely affect the credit quality of some of our loans and investments and the properties underlying our interests.

We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our performance and may cause the market value of our common stock to decline or be more volatile. A prolonged economic slowdown, a recession or declining real estate values as a result of any such attack could impair the performance of our investments and harm our financial condition and results of operations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. We cannot predict the severity of the effect that potential future terrorist attacks would have on us. Although we carry liability insurance, losses resulting from these types of events may not be fully insurable.

We have not established a minimum distribution payment level and we may not be able to make distributions to our stockholders in the future at current levels or at all.

We are generally required to distribute to our stockholders at least 90% of our taxable income each year for us to qualify as a REIT under the Code, which requirement we currently intend to satisfy through quarterly distributions of all or substantially all of our REIT taxable income in such year, subject to certain adjustments. We have not established a minimum distribution payment level, and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors contained in this Form 10-K. Although we have made, and anticipate continuing to make, quarterly distributions to our stockholders, our board of directors has the sole discretion to determine the timing, form and amount of any future distributions to our stockholders, and such determination will depend on our earnings, our financial condition, debt covenants, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We believe that a change in any one of the following factors could adversely affect our results of operations and impair our ability to continue to pay distributions to our stockholders:

- the profitability of the investment of the net proceeds from our equity offerings;
- our ability to make profitable investments;
- margin calls or other expenses that reduce our cash flow;
- defaults in our asset portfolio or decreases in the value of our portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, distributions to our stockholders in the future may not continue or the level of any future distributions we do make to our stockholders may not achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect our stockholders' return on investment.

In addition, distributions that we make to our stockholders are generally taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a stockholder's investment in our common stock.

Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

As has been widely publicized, the SEC, the Financial Accounting Standards Board and other regulatory bodies that establish the accounting rules applicable to us have proposed or enacted a wide array of changes to accounting rules over the last several years. Moreover, in the future these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in negative ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business or changes in applicable accounting rules. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we believe that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially and adversely affect us by, for example, leading to a decline in our stock price and impairing our ability to raise capital.

Risks Related to Sources of Financing

Our access to sources of financing may be limited and thus our ability to maximize our returns may be adversely affected.

Our financing sources currently include our credit agreements, our master repurchase agreements, our collateralized loan obligation ("CLO"), our convertible senior notes, our senior notes, our mortgage debt on certain investment properties and common stock and debt offerings. Subject to market conditions and availability, we may seek additional sources of financing in the form of bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities, structured financing arrangements, public and private equity and debt issuances and derivative instruments, in addition to transaction or asset-specific funding arrangements.

Our access to additional sources of financing will depend upon a number of factors, over which we have little or no control, including:

- general market conditions;
- the market's view of the quality of our assets;
- the market's perception of our growth potential;
- our current and potential future earnings and cash distributions; and
- the market price of the shares of our common stock.

A dislocation and/or weakness in the capital and credit markets could adversely affect one or more private lenders and could cause one or more of our private lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing. In addition, if regulatory capital requirements imposed on our private lenders change, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price.

To the extent structured financing arrangements are unavailable, we may have to rely more heavily on additional equity issuances, which may be dilutive to our stockholders, or on less efficient forms of debt financing that require a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash distributions to our stockholders and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our asset acquisition activities and/or dispose of assets, which could negatively affect our results of operations.

Our significant indebtedness subjects us to increased risk of loss and may reduce cash available for distributions to our stockholders.

We currently have a significant amount of indebtedness outstanding. As of December 31, 2019, our total consolidated indebtedness was approximately $11.8 billion (excluding accounts payable, accrued expenses, other liabilities, VIE liabilities and unfunded commitments). Our outstanding indebtedness currently includes our credit agreements, our repurchase agreements, our CLO, our convertible senior notes, our senior notes and mortgage debt on certain investment properties. Subject to market conditions and availability, we may incur additional debt through bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities, structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset-specific funding arrangements. The percentage of leverage we employ varies depending on our available capital, our ability to obtain and access financing arrangements with lenders and the lenders' and rating agencies' estimate of the stability of our investment portfolio's cash flow. Our governing documents contain no limitation on the amount of debt we may incur. We may significantly increase the amount of leverage we utilize at any time without approval of our board of directors. However, under our current repurchase agreements and bank credit facilities, our total leverage may not exceed 80% of total assets (as defined therein), as adjusted to remove the impact of bona-fide loan sales that are accounted for as financings and the consolidation of VIEs pursuant to GAAP. Moreover, the respective indentures governing our senior notes contain covenants that, subject to a number of exceptions and adjustments, among other things, limit our ability to incur additional indebtedness and require that we maintain total unencumbered assets (as defined therein) of not less than 120% of the aggregate principal amount of our outstanding unsecured indebtedness (as defined therein). In addition, we may leverage individual assets at substantially higher levels. Incurring substantial debt subjects us to many risks that, if realized, would materially and adversely affect us, including the risk that:

- our cash flow from operations may be insufficient to make required payments of principal of and interest on the debt or we may fail to comply with all of the other covenants contained in the debt, which is likely to result in (i) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision) that we may be unable to repay from internal funds or to refinance on favorable terms, or at all, (ii) our inability to borrow unused amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements and/or (iii) the loss of some or all of our assets to foreclosure or sale;
- our debt may increase our vulnerability to adverse economic and industry conditions, and investment yields may not increase with higher financing costs;
- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, future business opportunities, stockholder distributions or other purposes; and
- we may not be able to refinance debt that matures prior to the investment it was used to finance on favorable terms, or at all.

In addition, subject to certain conditions, the lenders under our credit facilities retain the sole discretion over the market value of loans and/or securities that serve as collateral for the borrowings under our credit facilities for purposes of determining whether we are required to pay margin to such lenders.

Interest rate fluctuations could significantly decrease our results of operations and cash flows and the market value of our investments.

Our primary interest rate exposures relate to the following:

- changes in interest rates may affect the yield on our investments and the financing cost of our debt, as well as the performance of our interest rate swaps that we utilize for hedging purposes, which could result in operating losses for us should interest expense exceed interest income;
- declines in interest rates may reduce the yield on existing floating rate assets and/or the yield on prospective investments;
- changes in the level of interest rates may affect our ability to source investments;
- increases in the level of interest rates may negatively impact the value of our investments and our ability to realize gains from the disposition of assets;
- increases in the level of interest rates may (x) increase the credit risk of our assets by negatively impacting the ability of our borrowers to pay debt service on our floating rate loan assets or our ability to refinance our assets

upon maturity and (y) negatively impact the value of the real estate supporting our investments (or that we own directly) through the impact such increases can have on property valuation capitalization rates; and

- changes in interest rates and/or the differential between U.S. dollar interest rates and those of non-dollar currencies in which we invest can adversely affect the value of our non-dollar assets and/or associated currency hedging transactions.

In addition, our variable rate indebtedness may use LIBOR as a benchmark for establishing the rate. As was announced in July 2017, LIBOR is anticipated to be phased out by the end of 2021. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely impact the availability and cost of borrowings.

Our warehouse facilities may limit our ability to acquire assets, and we may incur losses if the collateral is liquidated.

We utilize warehouse facilities pursuant to which we accumulate mortgage loans in anticipation of a securitization financing, which assets are pledged as collateral for such facilities until the securitization transaction is consummated. In order to borrow funds to acquire assets under any additional warehouse facilities, we expect that our lenders thereunder would have the right to review the potential assets for which we are seeking financing. We may be unable to obtain the consent of a lender to acquire assets that we believe would be beneficial to us and we may be unable to obtain alternate financing for such assets. In addition, a securitization transaction may not be consummated with respect to the assets being warehoused. If the securitization is not consummated, the lender could liquidate the warehoused collateral and we would then have to pay any amount by which the original purchase price of the collateral assets exceeds its sale price, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the securitization is consummated, if any of the warehoused collateral is sold before the consummation, we would have to bear any resulting loss on the sale. We may not be able to obtain additional warehouse facilities on favorable terms, or at all.

The utilization of any of our repurchase agreements is subject to the pre-approval of the lender.

We utilize repurchase agreements to finance the purchase of certain investments. In order for us to borrow funds under a repurchase agreement, our lender must have the right to review the potential assets for which we are seeking financing and approve such assets in its sole discretion. Accordingly, we may be unable to obtain the consent of a lender to finance an investment and alternate sources of financing for such asset may not exist.

A failure to comply with restrictive covenants in our financing arrangements would have a material adverse effect on us, and any future financings may require us to provide additional collateral or pay down debt.

We are subject to various restrictive covenants contained in our existing financing arrangements and may become subject to additional covenants in connection with future financings. Our credit agreements contain covenants that restrict our ability to incur additional debt or liens, make certain investments or acquisitions, merge, consolidate or transfer or dispose of substantially all of our assets or otherwise dispose of property and assets, pay dividends and make certain other restricted payments, change the nature of our business or enter into transactions with affiliates. Our credit agreements, as well as our master repurchase agreements, each requires us to maintain compliance with various financial covenants, including, as applicable, a minimum tangible net worth and cash liquidity, and specified financial ratios, such as total debt to total assets and EBITDA to fixed charges or loan-to-value ratios. In addition, the respective indentures governing our respective senior notes contain covenants that, subject to a number of exceptions, adjustments and, in certain circumstances, termination provisions, among other things: limit our ability to incur additional indebtedness; require that we maintain total unencumbered assets (as defined therein) of not less than 120% of the aggregate principal amount of our outstanding unsecured indebtedness (as defined therein); and impose certain requirements in order for us to merge or consolidate with another person.

These covenants may limit our flexibility to pursue certain investments or incur additional debt. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements and our indebtedness could be declared due and payable. In addition, our lenders could terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. Further, such limitations on our liquidity could also make it difficult for us to satisfy the distribution requirements necessary to maintain our status as a REIT for U.S. federal income tax purposes.

Our credit agreements and master repurchase agreements also involve the risk that the market value of the loans pledged or sold by us to the repurchase agreement counterparty or provider of the bank credit facility may decline in value, in which case the lender may require us to provide additional collateral or to repay all or a portion of the funds advanced. We may not have the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce our liquidity and limit our ability to leverage our assets. If we cannot meet these requirements, the lender could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from them, which could materially and adversely affect our financial condition and ability to continue to implement our business plan. In addition, in the event that the lender files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to bank credit facilities and increase our cost of capital.

If one or more of our Manager's executive officers are no longer employed by our Manager, the financial institutions providing us financing may not provide future financing to us, which could materially and adversely affect us.

If financial institutions with whom we seek to finance our investments require that one or more of our Manager's executives continue to serve in such capacity and if one or more of our Manager's executives are no longer employed by our Manager, it may constitute an event of default and the financial institution providing the arrangement may have acceleration rights with respect to outstanding borrowings and termination rights with respect to our ability to finance our future investments with that institution. If we are unable to obtain financing for our accelerated borrowings and for our future investments under such circumstances, we could be materially and adversely affected.

We directly or indirectly utilize non-recourse securitizations, and such structures expose us to risks that could result in losses to us.

We utilize non-recourse securitizations of our investments in mortgage loans to the extent consistent with the maintenance of our REIT qualification and exemption from the Investment Company Act in order to generate cash for funding new investments and/or to leverage existing assets. In most instances, this involves us transferring our loans to a special purpose securitization entity in exchange for cash. In some sale transactions, we also retain a subordinated interest in the loans sold. The securitization of our portfolio investments might magnify our exposure to losses on those portfolio investments because the subordinated interest we retain in the loans sold would be subordinate to the senior interest in the loans sold, and we would, therefore, absorb all of the losses sustained with respect to a loan sold before the owners of the senior interest experience any losses. Moreover, we cannot be assured that we will be able to access the securitization market in the future or be able to do so at favorable rates. The inability to consummate securitizations of our portfolio investments to finance our investments on a long-term basis could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to continue to grow our business.

We may not have the ability to raise funds on acceptable terms necessary to settle conversions of our outstanding convertible senior notes or to purchase our outstanding convertible senior notes upon a fundamental change.

As of December 31, 2019, we had $250.0 million in principal amount of convertible senior notes outstanding. If a fundamental change within the meaning of our outstanding convertible senior notes occurs, holders of those notes will have the right to require us to purchase for cash any or all of their notes. The fundamental change purchase price will equal 100% of the principal amount of the notes to be purchased, plus accrued and unpaid interest thereon. In addition, upon conversion of the convertible senior notes, we will be required to make cash payments in respect of the notes being converted, unless we elect to settle the conversion entirely in shares of our common stock. However, we may not have sufficient funds at the time we are required to purchase the notes surrendered therefor or to make cash payments on the notes being converted, and we may not be able to arrange necessary financing on acceptable terms. If we were unable to raise necessary funding on acceptable terms, our operating results and financial position could be negatively impacted if we were required to repurchase the notes or to pay cash upon conversion.

Amendments to the Federal Home Loan Bank ("FHLB") membership regulations could adversely affect our business and financial results.

In July 2017, we acquired a captive insurance company that is a member of the FHLB of Chicago (the "FHLBC"). Our subsidiary's membership in the FHLBC provides us with access to attractive long-term collateralized financing for residential mortgage loans. In January 2016, the Federal Housing Finance Agency ("FHFA") amended its regulations governing FHLB membership, providing that captive insurance companies will no longer be eligible for membership in the FHLB system. Our subsidiary was admitted as a member of the FHLBC prior to September 2014 and, as a result, is eligible under the amended regulations to remain a member through February 2021. Following the termination of our subsidiary's membership in the FHLBC in February 2021, we may not be able to replace the borrowing capacity provided by the FHLBC on terms as favorable as those received from such institution or at all, which could adversely affect our business and financial results.

Risks Related to Hedging

We enter into hedging transactions that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, part of our investment strategy involves entering into hedging transactions that require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our results of operations, 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.

Hedging may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

Subject to maintaining our qualification as a REIT, we pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest and foreign currency rates. Our hedging activity varies in scope based on the level and volatility of interest rates, exchange rates, the types of assets held and other changing market conditions. Hedging may fail to protect or could adversely affect us because, among other things:

- interest rate, currency and/or credit hedging can be expensive and may result in us receiving less interest income;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- due to a credit loss, prepayment or asset sale, the duration of the hedge may not match the duration of the related asset or liability;
- the amount of income that a REIT may earn from hedging transactions (other than hedging transactions that satisfy certain requirements of the Code or that are done through a TRS) to offset losses is limited by U.S. federal tax provisions governing REITs;
- the credit quality of the hedging counterparty 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; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

In addition, we may fail to recalculate, readjust or execute hedges in an efficient manner.

Any hedging activity in which we engage may materially and adversely affect our results of operations and cash flows. Therefore, while we may enter into such transactions seeking to reduce risks, unanticipated changes in interest rates, credit spreads or currencies 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 or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities 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 and costs that could result in material losses.

The cost of using hedging instruments increases as the period covered by the instrument increases and during periods of rising and volatile interest rates. In addition, some hedging instruments involve risk because they 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. Consequently, in many cases, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable securities, commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction that is not cleared on a regulated centralized clearing house will most likely result in its default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses.

We may fail to qualify for, or choose not to elect, hedge accounting treatment.

We record derivative and hedging transactions in accordance with GAAP. Under these standards, we may fail to qualify for, or choose not to elect, hedge accounting treatment for a number of reasons, including if we use instruments that do not meet the definition of a derivative (such as short sales), we fail to satisfy hedge documentation and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for, or choose not to elect, hedge accounting treatment, our operating results may be volatile because changes in the fair value of the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item.

We enter into derivative contracts that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, we enter into derivative contracts that could require us to fund cash payments in the future under certain circumstances (*e.g.*, the early termination of the derivative agreement caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the derivative contract). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses may materially and adversely affect our results of operations and cash flows.

Risks Related to Our Real Estate-Related Investments

We may not be able to identify additional assets that meet our investment objective.

We cannot assure you that we will be able to identify additional assets that meet our investment objective, that we will be successful in consummating any investment opportunities we identify or that one or more investments we may make will yield attractive risk-adjusted returns. Our inability to do any of the foregoing likely would materially and adversely affect our results of operations and cash flows and our ability to make distributions to our stockholders.

The lack of liquidity in our investments may adversely affect our business.

The lack of liquidity of our investments in real estate loans and investments, other than certain of our investments in MBS, may make it difficult for us to sell such investments if the need or desire arises. Many of the securities we purchase are not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or their disposition, except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. In addition, certain investments such as B-Notes, mezzanine loans and bridge and other loans are also particularly illiquid investments due to their short life, their potential unsuitability for securitization and/or the greater difficulty of recovery in the event of a borrower default. As a result, many of our current investments are, and our future investments will be, illiquid and 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. Further, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or our Manager has or could be attributed with material non-public information regarding such business entity. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

In connection with certain contributions of properties to our subsidiary, SPT Dolphin Intermediate LLC ("SPT Dolphin"), we have entered into a tax protection agreement with the contributors of such properties, pursuant to which SPT Dolphin is generally restricted from transferring the applicable properties during a specified period unless such contributors are indemnified against the tax liability on their shares of any gain recognized in such transfers (as well as any such tax liability arising due to SPT Dolphin not maintaining a specified level of nonrecourse debt on those properties during the specified period). This tax protection agreement, and any additional tax protection agreements that a subsidiary of ours may enter into in the future, will limit our flexibility to sell or otherwise dispose of, or to reduce the amount of indebtedness encumbering, the relevant properties even if it would otherwise be economically advantageous to us to do so.

Our investments may be concentrated and are subject to risk of default.

While we seek to diversify our portfolio of investments, we are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. Therefore, our investments in our target assets may at times be concentrated in certain property types that are subject to higher risk of foreclosure or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our investments within a short time period, which may reduce our net income and the value of our common stock and accordingly reduce our ability to make distributions to our stockholders.

Difficult conditions in the mortgage, commercial and residential real estate markets may cause us to experience market losses related to our holdings.

Our results of operations are materially affected by conditions in the real estate markets, the financial markets and the economy generally. Concerns about the real estate market, as well as inflation, energy costs, geopolitical issues and the availability and cost of credit, have contributed to increased volatility and diminished expectations for the economy and markets going forward. The residential mortgage market has been affected by changes in the lending landscape, and there is no assurance that these conditions have stabilized or that they will not worsen. The disruption in the residential mortgage market has an impact on new demand for homes, which weigh on future home price performance. There is a strong inverse correlation between home price growth rates and mortgage loan delinquencies. Deterioration in the real estate market may cause us to experience losses related to our assets and to sell assets at a loss. Declines in the market values of our investments may adversely affect our results of operations and credit availability, which may reduce earnings and, in turn, cash available for distribution to our stockholders.

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

We make preferred equity investments. These investments involve a higher degree of risk than conventional debt financing due to a variety of factors, including their non-collateralized nature and subordinated ranking to other loans and liabilities of the entity in which such preferred equity is held. Accordingly, if the issuer defaults on our investment, we would only be able to proceed against such entity in accordance with the terms of the preferred security and not against any property owned by such entity. Furthermore, in the event of bankruptcy or foreclosure, we would only be able to recoup our investment after all lenders to, and other creditors of, such entity are paid in full. As a result, we may lose all or a significant part of our investment, which could result in significant losses.

Our commercial construction lending may expose us to increased lending risks.

Our commercial construction lending may expose us to increased lending risks. As of December 31, 2019, our loan portfolio consisted of $1.5 billion of commercial real estate construction loans. Construction loans generally expose a lender to greater risk of non-payment and loss than permanent commercial mortgage loans because repayment of the loans often depends on the borrower’s ability to secure permanent “take-out” financing, which requires the successful completion of construction and stabilization of the project, or operation of the property with an income stream sufficient to meet operating expenses, including debt service on such replacement financing. For construction loans, increased risks include the accuracy of the estimate of the property’s value at completion of construction and the estimated cost of construction—all of which may be affected by unanticipated construction delays and cost over-runs. Such loans typically involve an expectation that the borrower’s sponsors will contribute sufficient equity funds in order to keep the loan “in balance,” and the sponsors’ failure or inability to meet this obligation could result in delays in construction or an inability to complete construction. Commercial construction loans also expose the lender to additional risks of contractor non-performance or borrower disputes with contractors resulting in mechanic’s or materialmen’s liens on the property and possible further delay in construction. In addition, since such loans generally entail greater risk than mortgage loans on income producing property, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable incurred credit losses associated with such loans. Further, as the lender under a construction loan, we may be obligated to fund all or a significant portion of the loan at one or more future dates. We may not have the funds available at such future date(s) to meet our funding obligations under the loan. In that event, we would likely be in breach of the loan unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. In addition, many of our construction loans have multiple lenders and if another lender fails to fund, we could be faced with the choice of either funding for that defaulting lender or suffering a delay or protracted interruption in the progress of construction.

We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these investment opportunities.

We operate in a highly competitive market for investment opportunities. Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices. In acquiring our target assets, we compete with a variety of institutional investors, including other REITs, commercial and investment banks, specialty finance companies, public and private funds (including other funds managed by Starwood Capital Group), commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Several other REITs have raised significant amounts of capital and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us, such as funding from the U.S. government, if we are not eligible to participate in programs established by the U.S. government. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than we do. Furthermore, competition for investments in our target assets may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to continue to take advantage of attractive investment opportunities from time to time, as we may not be able to identify and make additional investments that are consistent with our investment objectives.

The commercial mortgage loans we originate or acquire and the mortgage loans underlying our CMBS investments are subject to the ability of the commercial property owner to generate net income from operating the property, as well as the risks of delinquency and foreclosure.

Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such 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 adversely affected by, among other things,

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location, condition and design;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional or local economic conditions and/or specific industry segments, including the credit and securitization markets;
- 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;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest and civil disturbances.

In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations and limit amounts available for distribution to our stockholders. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower 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. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

Our investments in CMBS are generally subject to losses.

Our investments in CMBS are subject to losses. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the "first loss" subordinated security holder (generally, the "B-Piece" buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related CMBS, there would be an increased risk of loss. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

Dislocations, illiquidity and volatility in the market for commercial real estate as well as the broader financial markets could adversely affect the performance and value of commercial mortgage loans, the demand for CMBS and the value of CMBS investments.

Any significant dislocations, illiquidity or volatility in the real estate and securitization markets, including the market for CMBS, as well as global financial markets and the economy generally, could adversely affect our business and financial results. We cannot assure you that dislocations in the commercial mortgage loan market will not occur in the future.

Challenging economic conditions affect the financial strength of many commercial, multifamily and other tenants and result in increased rent delinquencies and decreased occupancy. Economic challenges may lead to decreased occupancy, decreased rents or other declines in income from, or the value of, commercial, multifamily and manufactured housing community real estate.

During the last economic recession, declining commercial real estate values, coupled with tighter underwriting standards for commercial real estate loans, prevented many commercial borrowers from refinancing their mortgages, which resulted in increased delinquencies and defaults on commercial, multifamily and other mortgage loans. Past declines in commercial real estate values also resulted in reduced borrower equity, further hindering borrowers' ability to refinance in an environment of increasingly restrictive lending standards and giving them less incentive to cure delinquencies and avoid foreclosure. The lack of refinancing opportunities in past years has impacted and could impact in the future, in particular, mortgage loans that do not fully amortize and on which there is a substantial balloon payment due at maturity, because borrowers generally expect to refinance these types of loans on or prior to their maturity date. Finally, declining commercial real estate values and the associated increases in loan-to-value ratios would result in lower recoveries on foreclosure and an increase in losses above those that would have been realized had commercial property values remained the same or increased. Continuing defaults, delinquencies and losses would further decrease property values, thereby resulting in additional defaults by commercial mortgage borrowers, further credit constraints and further declines in property values.

If our Manager overestimates the yields or incorrectly prices the risks of our investments, we may experience losses.

Our Manager values our investments based on yields and risks, taking into account estimated future losses on the mortgage loans and the underlying collateral included in the securitization's pools, and the estimated impact of these losses on expected future cash flows and returns. Our Manager's loss estimates may not prove accurate, as actual results may vary from estimates. In the event that our Manager underestimates the asset level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

Real estate valuation is inherently subjective and uncertain.

The valuation of real estate and therefore the valuation of any underlying security relating to loans made by us is inherently subjective due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. In addition, where we invest in construction loans, initial valuations will assume completion of the project. As a result, the valuations of the real estate assets against which we make loans are subject to a degree of uncertainty and are made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the commercial or residential real estate markets.

Any investments in corporate bank debt and debt securities of commercial real estate operating or finance companies are subject to the specific risks relating to the particular companies and to the general risks of investing in real estate-related loans and securities, which may result in significant losses.

We may invest in corporate bank debt and in debt securities of commercial real estate operating or finance companies. These investments involve special risks relating to the particular company, including its financial condition, liquidity, results of operations, business and prospects. In particular, the debt securities are often non-collateralized and may also be subordinated to its other obligations. We also invest in debt securities of companies that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses to us. We have not adopted any limit on such investments.

These investments also subject us to the risks inherent with real estate-related investments, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of, and net income from, real property;
- risks generally incident to interests in real property; and
- risks specific to the type and use of a particular property.

These risks may adversely affect the value of our investments in commercial real estate operating and finance companies and the ability of the issuers thereof to make principal and interest payments in a timely manner, or at all, and could result in significant losses.

Investments in non-conforming and non-investment grade rated loans or securities involve increased risk of loss.

Many of our investments do not conform to conventional loan standards applied by traditional lenders and either are not rated or rated as non-investment grade by the rating agencies. The non-investment grade credit ratings for these assets typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the properties' underlying cash flow or other factors. As a result, these investments have a higher risk of default and loss than investment grade rated assets. Any loss we incur may be significant and may reduce distributions to our stockholders and adversely affect the market value of our common stock. There are no limits on the percentage of unrated or non-investment grade rated assets we may hold in our investment portfolio.

Any credit ratings assigned to our investments are subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.

Some of our investments are rated by Moody's Investors Service, Inc., Fitch Ratings, Inc., Standard & Poor's Ratings Services, DBRS, Inc., Kroll Bond Rating Agency, Inc. or Morningstar Credit Ratings, LLC. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value of these investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us.

The B-Notes that we acquire may be subject to additional risks related to the privately negotiated structure and terms of the transaction, which may result in losses to us.

We invest in B-Notes. A B-Note is a mortgage loan typically (i) secured by a first mortgage on a single large commercial property or group of related properties and (ii) subordinated to an A-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 a B-Note holder after payment to the A-Note holder. However, because 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 vary from transaction to transaction. Further, B-Notes typically are secured by a single property and so reflect the risks associated with significant concentration. Significant losses related to our B-Notes would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Our mezzanine loans involve greater risks of loss than senior loans secured by income-producing properties.

We invest in mezzanine loans, which sometimes take the form of subordinated loans secured by second mortgages on the underlying property or more commonly take the form of loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our mezzanine loans would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Bridge loans involve a greater risk of loss than traditional investment-grade mortgage loans with fully insured borrowers.

We may acquire bridge loans secured by first lien mortgages on a property to borrowers who are typically seeking short-term capital to be used in an acquisition, construction or rehabilitation of a property, or other short-term liquidity needs. The typical borrower under a bridge loan has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the bridge loan, and we bear the risk that we may not recover some or all of our initial expenditure.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a bridge loan. A bridge loan therefore is subject to the risk of a borrower's inability to obtain permanent financing to repay the bridge loan. Bridge loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under bridge loans held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the bridge loan. To the extent we suffer such losses with respect to our bridge loans, the value of our company and the price of our shares of common stock may be adversely affected.

We purchase securities backed by subprime or alternative documentation residential mortgage loans, which are subject to increased risks.

We own non-agency RMBS backed by collateral pools of mortgage loans that have been originated using underwriting standards that are less restrictive than those used in underwriting "prime" mortgage loans. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories, mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgaged property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans and alternative documentation ("Alt-A") mortgage loans, the performance of non-agency RMBS backed by subprime mortgage loans and Alt-A mortgage loans that we acquire could be correspondingly adversely affected, which could adversely impact our results of operations, financial condition and business.

We may acquire and sell from time to time residential mortgage loans, including "non-QM" loans, which may subject us to legal, regulatory and other risks, which could adversely impact our business and financial results.

We may from time to time acquire residential mortgage loans, including residential mortgage loans sometimes referred to as "non-qualified mortgages" or "non-QMs" that will not have the benefit of enhanced legal protections otherwise available in connection with the origination of residential mortgage loans to a more restrictive credit standard than just determining a borrower's ability to repay, as further described below.

The ownership of residential mortgage loans, including non-QMs, will subject us to legal, regulatory and other risks, including those arising under federal consumer protection laws and regulations designed to regulate residential mortgage loan underwriting and originators' lending processes, standards and disclosures to borrowers. These laws and regulations include the Consumer Financial Protection Bureau's ("CFPB") TILA-RESPA Integrated Disclosure rule (also referred to as "TRID"), the "ability-to-repay" rules ("ATR Rules") under the Truth-in-Lending Act and "qualified mortgage" regulations, in addition to various federal, state and local laws and regulations intended to discourage predatory lending practices by residential mortgage loan originators. The ATR Rules specify the characteristics of a "qualified mortgage" and two levels of presumption of compliance with the ATR Rules: a safe harbor and a rebuttable presumption for higher priced loans. The "safe harbor" under the ATR Rules applies to a covered transaction that meets the definition of "qualified mortgage" and is not a "higher-priced covered transaction." For any covered transaction that meets the definition of a "qualified mortgage" and is not a "higher-priced covered transaction," the creditor or assignee will be deemed to have complied with the ability-to-repay requirement and, accordingly, will be conclusively presumed to have made a good faith and reasonable determination of the consumer's ability to repay. Creditors or assignees will have the benefit of a rebuttable presumption of compliance with the applicable ATR Rules if they have complied with the qualified mortgage characteristics of the ATR Rules other than the residential mortgage loan being higher-priced in excess of certain thresholds. Non-QMs, such as residential mortgage loans with a debt-to-income ratio exceeding 43%, are among the loan products that we may acquire that do not constitute qualified mortgages and, accordingly, do not have the benefit of either a safe harbor from liability under the ATR Rules or a rebuttable presumption of compliance with the ATR Rules. Application of certain standards set forth in the ATR Rules is highly subjective and subject to interpretive uncertainties. As a result, a court may determine that a residential mortgage loan did not meet the standard or test even if the originator reasonably believed such standard or test had been satisfied. Failure of residential mortgage loan originators or servicers to comply with these laws and regulations could subject us, as an assignee or purchaser of these loans (or as an investor in securities backed by these loans), to monetary penalties assessed by the CFPB through its administrative enforcement authority and by mortgagors through a private right of action against lenders or as a defense to foreclosure, including by recoupment or setoff of finance charges and fees collected, and could result in rescission of the affected residential mortgage loans, which could adversely impact our business and financial results. Such risks may be higher in connection with the acquisition of non-QMs. Borrowers under non-QMs may be more likely to challenge the analysis conducted under the ATR Rules by lenders. Even if a borrower does not succeed in the challenge, additional costs may be incurred in connection with challenging and defending such claims, which may be more costly in judicial foreclosure jurisdictions than in non-judicial foreclosure jurisdictions, and there may be more of a likelihood such claims are made since the borrower is already exposed to the judicial system to process the foreclosure.

In addition, when certain of our wholly-owned subsidiaries sell, finance or sponsor securitizations of residential mortgage loans, such subsidiaries may make representations and warranties to the purchaser, the financing provider or to other third parties regarding, among other things, certain characteristics of those assets, including characteristics sought to be verified through underwriting and due diligence efforts. In the event of breaches of representations and warranties with respect to any asset, such subsidiaries may be obligated to repurchase that asset or pay damages or remove that asset from the borrowing base, as applicable, which may result in a loss. Even if representations and warranties are made by counterparties from whom we acquired the loans, they may not parallel the representations and warranties our subsidiaries make or may otherwise not protect us from losses, including, for example, due to the fact that the counterparty may be insolvent or otherwise unable to make a payment at the time of a claim against such counterparty for damages for a breach of a representation or warranty.

The residential mortgage loans that we may acquire, and that underlie the RMBS we acquire, are subject to risks particular to investments secured by mortgage loans on residential property. These risks are heightened because we may purchase non-performing loans.

Residential mortgage loans are secured by single-family residential property and are subject to risks of delinquency and foreclosure and risks of loss. The ability of a borrower to repay a loan secured by a residential property typically is dependent upon the income and/or assets of the borrower. A number of factors may impair borrowers' abilities to repay their loans, including:

- changes in the borrowers' income or assets;
- acts of God, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of such events;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance;
- costs of remediation and liabilities associated with environmental conditions; and
- the potential for uninsured or under-insured property losses.

In the event of any default under a residential mortgage loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the price we paid for the loan and any accrued interest of the mortgage loan plus advances made, which could have a material adverse effect on our cash flow from operations. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower 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. Additionally, foreclosure on a mortgage loan could subject us to greater concentration of the risks of the residential real estate markets and risks related to the ownership and management of real property.

We may acquire non-agency RMBS, which are backed by residential property but, in contrast to agency RMBS, their principal and interest are not guaranteed by federally chartered entities such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation and, in the case of the Government National Mortgage Association, the U.S. government. Our investments in RMBS are subject to the risks of default, foreclosure timeline extension, fraud, home price depreciation and unfavorable modification of loan principal amount, interest rate and amortization of principal accompanying the underlying residential mortgage loans. To the extent that assets underlying our investments are concentrated geographically, by property type or in certain other respects, we may be subject to certain of the foregoing risks to a greater extent. In the event of defaults on the residential mortgage loans that underlie our investments in agency RMBS and the exhaustion of any underlying or any additional credit support, we may not realize our anticipated return on our investments and we may incur a loss on these investments.

Our inability to promptly foreclose upon defaulted residential mortgage loans could increase our cost of doing business and/or diminish our expected return on investments. Our ability to promptly foreclose upon defaulted residential mortgage loans and liquidate the underlying real property plays a critical role in our valuation of, and expected return on, those investments. There are a variety of factors that may inhibit our ability to foreclose upon a residential mortgage loan and liquidate the real property within the time frames we model as part of our valuation process. These factors include, without limitation: federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures and that serve to delay the foreclosure process; Home Affordable Modification Program and other programs that require specific procedures to be followed to explore the refinancing of a mortgage loan prior to the commencement of a foreclosure proceeding; and continued declines in real estate values and sustained high levels of unemployment that increase the number of foreclosures and place additional pressure on the already overburdened judicial and administrative systems.

Prepayment rates may adversely affect the value of our investment portfolio.

The value of our investment portfolio is affected by prepayment rates on our mortgage assets. In many cases, borrowers are not prohibited from making prepayments on their mortgage loans. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond our control, including, without limitation, housing and financial markets and relative interest rates on fixed rate mortgage loans and adjustable rate mortgage loans ("ARMs"). Consequently, prepayment rates cannot be predicted.

We generally receive principal payments that are made on our mortgage assets, including residential mortgage loans underlying the agency RMBS or the non-agency RMBS that we acquire. When borrowers prepay their mortgage loans faster than expected, it results in prepayments that are faster than expected. Faster than expected prepayments could adversely affect our profitability and our ability to recoup our cost of certain investments purchased at a premium over par value, including in the following ways:

- We may purchase RMBS that have a higher interest rate than the prevailing market interest rate at the time. In exchange for this higher interest rate, we may pay a premium over the par value to acquire our mortgage asset. In accordance with GAAP, we may amortize this premium over the estimated term of our mortgage asset. If our mortgage asset is prepaid in whole or in part prior to its maturity date, however, we may be required to expense the allocable portion of the premium at the time of the prepayment.
- Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, making it unlikely that we would be able to reinvest the proceeds of any prepayment in mortgage assets of similar quality and terms (including yield). If we are unable to invest in similar mortgage assets, we would be adversely affected.

While we seek to minimize prepayment risk to the extent practical, in selecting investments we must balance prepayment risk against other risks and the potential returns of each investment. No strategy can completely insulate us from prepayment risk.

Interest rate mismatches between our agency RMBS backed by ARMs and our borrowings used to fund our purchases of these assets may reduce our net interest income and cause us to suffer a loss during periods of rising interest rates.

To the extent that we invest in agency RMBS backed by ARMs, we may finance these investments with borrowings that have interest rates that adjust more frequently than the interest rates of those agency RMBS or the ARMs that back those RMBS. Accordingly, if short-term interest rates increase, our borrowing costs may increase faster than the interest rates on agency RMBS backed by ARMs adjust. As a result, in a period of rising interest rates, we could experience a decrease in net income or a net loss. In most cases, the interest rates on our agency RMBS and on our borrowings will not be identical, thereby potentially creating an interest rate mismatch between our investments and our borrowings. While the historical spread between relevant short-term interest rate indices has been relatively stable, there have been periods when the spread between these indices was volatile. During periods of changing interest rates, these interest rate index mismatches could reduce our net income or produce a net loss, and adversely affect our ability to make distributions and the market price of our common stock.

In addition, agency RMBS backed by ARMs are typically subject to lifetime interest rate caps which limit the amount that interest rates can increase through the maturity of the agency RMBS. However, our borrowings under repurchase agreements typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while caps could limit the interest rates on these types of agency RMBS. This problem is magnified for agency RMBS backed by ARMs that are not fully indexed. Further, some agency RMBS backed by ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we may receive less cash income on these types of agency RMBS than we need to pay interest on our related borrowings. These factors could reduce our net interest income and cause us to suffer a loss during periods of rising interest rates.

Risks of cost overruns and noncompletion of renovation of the properties underlying rehabilitation loans may result in significant losses.

The renovation, refurbishment or expansion by a borrower under a mortgaged property involves risks of cost overruns and noncompletion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment, which could result in significant losses.

Interest rate fluctuations could reduce our ability to generate income on our investments and may cause losses.

Changes in interest rates affect our net interest income, which is the difference between the interest income we earn on our interest-earning investments and the interest expense we incur in financing these investments. Changes in the level of interest rates also may affect our ability to originate and acquire assets, the value of our assets and our ability to realize gains from the disposition of assets. Changes in interest rates may also affect borrower default rates. In a period of rising interest rates, our interest expense could increase, while the interest we earn on our fixed-rate debt investments would not change, adversely affecting our profitability. Our operating results depend in large part on differences between the income from our assets, net of credit losses, and our financing costs. We anticipate that for any period during which our assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates may significantly influence our net income. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us.

We may invest in distressed and non-performing commercial loans which could subject us to increased risks relative to performing loans, which may result in losses to us.

We may invest in distressed and non-performing commercial mortgage loans, which are subject to increased risks of loss. Such loans may be or become non-performing for a variety of reasons, including, without limitation, because the underlying property is too highly leveraged or the borrower falls upon financial distress, in either case, resulting in the borrower being unable to meet its debt service obligations. Such loans may require a substantial amount of workout negotiations and/or restructuring, which may divert the attention of our Manager from other activities and may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of the loan. Moreover, the ability to implement a successful restructuring entails a high degree of uncertainty, and our Manager may not be able to implement any such restructuring on favorable terms or at all.

The financial or operating difficulties relating to the distressed or non-performing loan may never be overcome and may cause the borrower to become subject to bankruptcy or other similar administrative proceedings. In connection with any such proceeding, we may incur substantial or total losses on our investments and may become subject to certain additional potential liabilities that may exceed the value of our original investment therein. For example, under certain circumstances, a lender that has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to us may be reclaimed if any such payment is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws.

Alternatively, we may find it necessary or desirable to foreclose on one of these loans, and the foreclosure process may be lengthy and expensive. Borrowers or junior lenders may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses against us. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property, or defending challenges brought after the completion of a foreclosure, will further reduce the proceeds and thus increase our loss.

We may experience a decline in the fair value of our assets.

A decline in the fair value of our assets would require us to recognize an unrealized loss against earnings for those assets that are recorded at fair value through earnings, or may trigger an impairment, credit loss or other charge against earnings under applicable GAAP for those assets that are not recorded at fair value through earnings if we expect that the carrying value of those assets will not be recoverable. Subsequent disposition or sale of such assets could further affect our future losses or gains depending on the actual proceeds received.

Some of our portfolio investments are recorded at fair value and, as a result, there is uncertainty as to the value of these investments.

Some of our portfolio investments are in the form of positions or securities 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 in accordance with GAAP, which include consideration of unobservable inputs. Because such valuations are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Liability relating to environmental matters may impact the value of properties that we may purchase or acquire.

We may be subject to environmental liabilities arising from properties we own. Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

The presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property underlying one of our debt investments becomes liable for removal costs, the ability of the owner to make payments to us may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us and our ability to make distributions to our stockholders.

The presence of hazardous substances on a property we own may adversely affect our ability to sell the property and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material environmental liabilities attached to such properties could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

We invest in commercial properties subject to net leases, which could subject us to losses.

We invest in commercial properties subject to net leases. Typically, net leases require the tenants to pay substantially all of the operating costs associated with the properties. As a result, the value of, and income from, investments in commercial properties subject to net leases will depend, in part, upon the ability of the applicable tenant to meet its obligations to maintain the property under the terms of the net lease. If a tenant fails or becomes unable to so maintain a property, we will be subject to all risks associated with owning the underlying real estate. Under many net leases, however, the owner of the property retains certain obligations with respect to the property, including, among other things, the responsibility for maintenance and repair of the property, to provide adequate parking, maintenance of common areas and compliance with other affirmative covenants in the lease. If we were to fail to meet any such obligations, the applicable tenant could abate rent or terminate the applicable lease, which could result in a loss of our capital invested in, and anticipated profits from, the property.

We expect that some commercial properties subject to net leases in which we invest generally will be occupied by a single tenant and, therefore, the success of these investments will be materially dependent on the financial stability of each such tenant. A default of any such tenant on its lease payments to us would cause us to lose the revenue from the property and cause us to have to find an alternative source of revenue to meet any mortgage payment and prevent a foreclosure if the property is subject to a mortgage. In the event of a default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. If a lease is terminated, we may also incur significant losses to make the leased premises ready for another tenant and experience difficulty or a significant delay in re-leasing such property.

In addition, net leases typically have longer lease terms and, thus, there is an increased risk that contractual rental increases in future years will fail to result in fair market rental rates during those years.

We may acquire these investments through sale-leaseback transactions, which involve the purchase of a property and the leasing of such property back to the seller thereof. If we enter into a sale-leaseback transaction, our Manager will seek to structure any such sale-leaseback transaction such that the lease will be characterized as a “true lease” for U.S. federal income tax purposes, thereby allowing us to be treated as the owner of the property for U.S. federal income tax purposes. However, we cannot assure you that the Internal Revenue Service (the “IRS”) will not challenge such characterization. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for U.S. federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the REIT qualification “asset tests” or “income tests” and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated, which might also cause us to fail to meet the REIT distribution requirement for a taxable year.

Investments outside the U.S. that are denominated in foreign currencies subject us to foreign currency risks and to the uncertainty of foreign laws and markets, which may adversely affect our distributions and our REIT status.

Our investments outside the U.S. denominated in foreign currencies subject us to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. As a result, changes in exchange rates of any such foreign currency to U.S. dollars may affect our income and distributions and may also affect the book value of our assets and the amount of stockholders’ equity. In addition, these investments subject us to risks of multiple and conflicting tax laws and regulations, and other laws and regulations that may make foreclosure and the exercise of other remedies in the case of default more difficult or costly compared to U.S. assets, and political and economic instability abroad, any of which factors could adversely affect our receipt of returns on and distributions from these investments.

Changes in foreign currency exchange rates used to value a REIT’s foreign assets may be considered changes in the value of the REIT’s assets. These changes may adversely affect our status as a REIT. Further, bank accounts in foreign currency which are not considered cash or cash equivalents may adversely affect our status as a REIT.

Conditions in Europe and the pending departure of the United Kingdom from the European Union, the exit of any other member state or the break-up of the European Union entirely, would create uncertainty and could affect our investments directly.

We currently hold, and may acquire additional, investments that are denominated in Pounds Sterling ("GBP") and EURs (including loans secured by assets located in the United Kingdom or Europe), as well as equity interests in real estate properties located in Europe. European financial markets have experienced volatility and have been adversely affected by concerns about rising government debt levels, credit rating downgrades and possible default on or restructuring of government debt. These events have caused bond yield spreads (the cost of borrowing debt in the capital markets) and credit default spreads (the cost of purchasing credit protection) to increase, most notably in relation to certain Eurozone countries. The governments of several member countries of the European Union have experienced large public budget deficits, which have adversely affected the sovereign debt issued by those countries and may ultimately lead to declines in the value of the Euro.

On January 31, 2020, the United Kingdom officially withdrew from the European Union (such withdrawal commonly being referred to as "Brexit"). On October 17, 2019, previous to the official withdrawal of the United Kingdom from the European Union, the European Union and the United Kingdom agreed to a negotiated withdrawal agreement (the "Withdrawal Agreement"). The Withdrawal Agreement provides for an implementation period ending on December 31, 2020 (which may be extended for up to two years) during which, except as otherwise provided for in the Withdrawal Agreement, European Union law will be applicable to, and in, the United Kingdom while the European Union and the United Kingdom negotiate their future relationship.

The Withdrawal Agreement was ratified by the United Kingdom Parliament in January 2020. There is, however, uncertainty as to the scope, nature and terms of any future relationship to be negotiated between the United Kingdom and the European Union after Brexit.

Any further deterioration in the global or Eurozone economy, or Brexit and the uncertainty associated with it, could have a material adverse effect on our business, the value of our properties and investments and our potential growth in Europe, and could amplify the currency risks faced by us.

We invest in equity interests in commercial real estate assets, which subjects us to the general risks of owning commercial real estate.

We acquire and manage equity interests in commercial real estate assets. The economic performance and value of these investments can be adversely affected by many factors that are generally applicable to most real estate, including the following:

- changes in the national, regional, local and international economic climate;
- local conditions, such as oversupply of space or a reduction in demand for real estate in the areas in which they are located;
- competition from other available space;
- the attractiveness of the real estate to tenants;
- increases in operating costs if these costs cannot be passed through to tenants;
- the financial condition of tenants and the ability to collect rent from tenants;
- vacancies, changes in market rental rates and the need to periodically renovate, repair and re-let space;
- changes in interest rates and the availability of financing;
- changes in zoning laws and taxation, government regulation and potential liability under environmental or other laws or regulations;
- acts of God, including, without limitation, earthquakes, hurricanes and other natural disasters, or acts of war or terrorism, in each case which may result in uninsured or underinsured losses; and
- decreases in the underlying value of real estate.

Certain significant expenditures associated with an investment in commercial real estate assets (such as mortgage payments, real estate taxes and maintenance costs) generally do not decline when circumstances cause a reduction in income from the asset. Because real estate investments are relatively illiquid, our ability to vary any investments in commercial real estate assets promptly in response to economic or other conditions would be limited. This relative illiquidity could impede our ability to respond to adverse changes in the performance of such investments. The value of our equity investments in commercial real estate assets could decrease in the future.

We face risks associated with acquisitions of commercial real estate assets.

Our acquisition of equity interests in commercial real estate assets is subject to, and the success of those assets may be adversely affected by, various risks, including those described below:

- we and our Manager may be unable to meet required closing conditions;
- we may be unable to finance acquisitions on favorable terms or at all;
- acquired assets may fail to perform as expected;
- our Manager's estimates of the costs of repositioning or renovating acquired commercial real estate assets may be inaccurate;
- we may not be able to obtain adequate insurance coverage for acquired commercial real estate assets;
- acquisitions may be located in markets where we and our Manager have a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures;
- our Manager may be unable to quickly and efficiently integrate new acquisitions of commercial real estate assets into our existing operations and, therefore, our results of operations and financial condition could be adversely affected; and
- we may acquire equity interests in commercial real estate assets through a joint venture, and such investments could be adversely affected by our lack of sole decision-making authority and reliance upon a co-venturer's financial condition. In addition, if we co-invest with affiliates of our Manager, we may be obligated to pay fees to such affiliates and would be subject to a variety of conflicts of interest with such affiliates, including conflicts similar to those described under the section captioned "—Risks Related to Our Relationship with Our Manager."

We make equity investments in commercial real estate assets subject to both known and unknown liabilities and without any recourse, or with only limited recourse to the seller thereof. As a result, if a liability were asserted against us arising from our ownership of those assets, we might have to pay substantial sums to settle it, which could adversely affect us. Unknown liabilities with respect to commercial real estate assets may include:

- claims by tenants, vendors or other persons arising from dealing with the former owners of the assets;
- liabilities incurred in the ordinary course of business;
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the assets; and
- liabilities for clean-up of undisclosed environmental contamination.

Government housing regulations may limit the opportunities at the affordable housing communities in which we invest, and failure to comply with resident qualification requirements may result in financial penalties or loss of benefits.

We own, and may acquire additional, equity interests in affordable housing communities and other properties that benefit from governmental programs intended to provide housing to individuals with low or moderate incomes. These programs, which are typically administered by the United States Department of Housing and Urban Development ("HUD") or state housing finance agencies, typically provide mortgage insurance, favorable financing terms, tax credits or rental assistance payments to property owners. As a condition of the receipt of assistance under these programs, the properties must comply with various requirements, which typically limit rents to pre-approved amounts and impose restrictions on resident incomes. Failure to comply with these requirements and restrictions may result in financial penalties or loss of benefits. In addition, we will typically need to obtain the approval of HUD in order to acquire or dispose of a significant interest in or manage a HUD-assisted property. We may not always receive such approval.

We are subject to the general risks of owning properties relating to the healthcare industry.

We own, and may acquire additional, equity interests in properties relating to the healthcare industry. The economic performance and value of these properties and of some or all of the tenants/operators of such properties could be adversely affected by many factors that are generally applicable to properties relating to the healthcare industry, including the following:

- adverse trends in healthcare provider operations, such as changes in the demand for and methods of delivering healthcare services, changes in third party reimbursement policies, significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas, increased expense for uninsured patients, increased competition among healthcare providers, increased liability insurance expense, continued pressure by private and governmental payors to reduce payments to providers of services and increased scrutiny of billing, referral and other practices by federal and state authorities and private insurers;
- extensive healthcare regulation, changes in enforcement policies with respect to such regulation and potential changes in the regulatory framework of the healthcare industry; and
- significant legal actions brought against tenants/operators that could subject them to increased operating costs and substantial uninsured liabilities.

We may sponsor, or purchase the more junior securities of, CLOs and such instruments involve significant risks, including that these securities receive distributions from the CLO only if the CLO generates enough income to first pay all the investors holding senior tranches and all CLO expenses.

In August 2019, we entered into a CLO, and in the future we may enter into additional CLOs. In CLOs, investors purchase specific tranches, or slices, of debt instruments that are secured or backed by a pool of loans. The CLO debt classes have a specific seniority structure and priority of payments. The most junior securities of a CLO are generally retained by the sponsor of the CLO and are usually entitled to all of the income generated by the pool of loans after the payment of debt service on all the more senior classes of debt and the payment of all expenses. Defaults on the pool of loans therefore first affect the most junior tranches. The subordinate tranches of CLO debt may also experience a lower recovery and greater risk of loss, including risk of deferral or non-payment of interest than more senior tranches of the CLO debt because they bear the bulk of defaults from the loans held in the CLO and serve to protect the other, more senior tranches from default in all but the most severe circumstances. Despite the protection provided by the subordinate tranches, even more senior CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, decline in market value due to market anticipation of defaults and aversion to CLO securities as a class. Further, the transaction documents relating to the issuance of CLO securities may impose eligibility criteria on the assets of the CLO, restrict the ability of the CLO's sponsor to trade investments and impose certain portfolio-wide asset quality requirements. Finally, the credit risk retention rules of the SEC impose a retention requirement of 5% of the issued debt classes by the sponsor of the CLO. These criteria, restrictions and requirements may limit the ability of the CLO's sponsor (or collateral manager) to maximize returns on the CLO securities.

In addition, CLOs are not actively traded and are relatively illiquid investments and volatility in CLO trading markets may cause the value of these investments to decline. The market value of CLO securities may be affected by, among other things, changes in the market value of the underlying loans held by the CLO, changes in the distributions on the underlying loans, defaults and recoveries on the underlying loans, capital gains and losses on the underlying losses (or foreclosure assets), prepayments on the underlying loans and the availability, prices and interest rate of underlying loans. Furthermore, the leveraged nature of each subordinated tranche may magnify the adverse impact on such class of changes in the value of the loans, changes in the distributions on the loans, defaults and recoveries on the loans, capital gains and losses on the loans (or foreclosure assets), prepayment on loans and availability, price and interest rates of the loans.

A CLO may include certain interest coverage tests, overcollateralization coverage tests or other tests that, if not met, may result in a change in the priority of distributions, which may result in the reduction or elimination of distributions to the subordinate debt and equity tranches until the tests have been met or certain senior classes of securities have been paid in full. Accordingly, if we hold subordinate debt interests in a CLO that contains such tests and such tests are not satisfied, we may experience a significant reduction in our cash flow from those interests.

Furthermore, if any CLO that we sponsor or in which we hold interests fails to meet certain tests relevant to the most senior debt issued and outstanding by the CLO issuer, an event of default may occur under that CLO. If that occurs,

(i) if we were serving as manager of the CLO, our ability to manage the CLO may be terminated and (ii) our ability to attempt to cure any defaults in the CLO may be limited, which would increase the likelihood of a reduction or elimination of cash flow and returns to us in the CLOs for an indefinite time.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on joint venture partners' financial condition and liquidity and disputes between us and our joint venture partners.

We may make investments through joint ventures. Such joint venture investments may involve risks not otherwise present when we make investments without partners, including the following:

- we may not have exclusive control over the investment or the joint venture, which may prevent us from taking actions that are in our best interest and could create the potential risk of creating impasses on decisions, such as with respect to acquisitions or dispositions;
- joint venture agreements often restrict the transfer of a partner's interest or may otherwise restrict our ability to sell the interest when we desire and/or on advantageous terms;
- joint venture agreements may contain buy-sell provisions pursuant to which one partner may initiate procedures requiring the other partner to choose between buying the other partner's interest or selling its interest to that partner;
- a partner may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;
- a partner may be in a position to take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT and our exemption from registration under the Investment Company Act;
- a partner may fail to fund its share of required capital contributions or may become bankrupt, which may mean that we and any other remaining partners generally would remain liable for the joint venture's liabilities;
- our relationships with our partners are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or investments underlying such relationship or may need to purchase such interests or investments at a premium to the market price to continue ownership;
- disputes between us and a partner may result in litigation or arbitration that could increase our expenses and prevent our Manager and our officers and directors from focusing their time and efforts on our business and could result in subjecting the investments owned by the joint venture to additional risk; or
- we may, in certain circumstances, be liable for the actions of a partner, and the activities of a partner could adversely affect our ability to qualify as a REIT or maintain our exclusion from registration under the Investment Company Act, even though we do not control the joint venture.

Any of the above may subject us to liabilities in excess of those contemplated and adversely affect the value of our joint venture investments.

We are subject to risks from natural disasters such as earthquakes and severe weather, which may result in damage to our properties.

Natural disasters and severe weather such as earthquakes, tornadoes, hurricanes or floods may result in significant damage to our properties. The extent of our casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. When we have geographic concentration of exposures, a single catastrophe (such as an earthquake) or destructive weather event (such as a hurricane) affecting a region may have a significant negative effect on our financial condition and results of operations. We may be materially and adversely affected by our exposure to losses arising from natural disasters or severe weather.

Risks Related to Our Infrastructure Lending Segment

We may not realize all of the anticipated benefits of our prior acquisition of the Infrastructure Lending Segment or such benefits may take longer to realize than expected.

The success of our prior acquisition of the Infrastructure Lending Segment depends, in part, on our ability to realize the anticipated benefits from successfully integrating the Infrastructure Lending Segment with our company. The combination of this business with ours is a complex, costly and time-consuming process. As a result, we are required to devote significant management attention and resources to integrating the Infrastructure Lending Segment with the rest of our company. The integration process may disrupt our business and, if implemented ineffectively, could preclude us from realizing all of the potential benefits we expect to realize with respect to the acquisition. Our failure to meet the challenges involved in the integration could cause an interruption of, or a loss of momentum in, our business and could harm our results of operations. In addition, the integration may result in material unanticipated problems, expenses, liabilities, loss of business relationships and diversion of management's attention, and may cause our stock price to decline. The difficulties relating to the integration process include, among others:

- managing a new area of business;
- the potential diversion of management focus and resources from other strategic opportunities and from operational matters and potential disruption associated with the acquisition;
- maintaining employee morale and retaining key management and other employees;
- integrating two unique business cultures;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- consolidating corporate and administrative infrastructures;
- coordinating geographically separate organizations;
- unanticipated issues in integrating information technology, communications and other systems;
- unanticipated changes in applicable laws and regulations;
- managing tax costs or inefficiencies associated with the integration process; and
- suffering losses if we do not experience the anticipated benefits of the transaction.

For our prior acquisition of the Infrastructure Lending Segment to be successful, we must retain and motivate key employees, and failure to do so could seriously harm our business and financial results. In addition, the success of our acquisition of the Infrastructure Lending Segment depends, in part, on our ability to leverage the capabilities of Starwood Energy Group.

The success of our prior acquisition of the Infrastructure Lending Segment largely depends on the skills, experience, industry contacts and continued efforts of management and other key personnel. As a result, for our prior acquisition of the Infrastructure Lending Segment to be successful, we must retain and motivate executives and other key employees. Employees from the Infrastructure Lending Segment may experience uncertainty about their future roles with us until or after strategies relating to the Infrastructure Lending Segment are executed. In addition, the marketplace for infrastructure debt professionals is highly competitive and other infrastructure debt providers may seek to recruit our executives and other key employees. These circumstances may adversely affect our ability to retain executives of the Infrastructure Lending Segment and other key personnel. We also must continue to motivate employees and keep them focused on our strategies and goals, which effort may be adversely affected as a result of the uncertainty and difficulties with integrating the Infrastructure Lending Segment with the rest of our company. If we are unable to retain executives and other key employees, the roles and responsibilities of such executive officers and employees will need to be filled either by existing or new officers and employees, which may require us to devote time and resources to identifying, hiring and integrating replacements for the departed executives and employees that could otherwise be used to integrate the Infrastructure Lending Segment with the rest of our company or otherwise pursue business opportunities. Moreover, because the marketplace for infrastructure debt professionals is highly competitive, we may not be able to replace departing employees on a timely basis or at all without incurring significant expense.

In addition, we intend to leverage the existing capabilities of Starwood Energy Group, an affiliate of our Manager, with respect to our existing and future infrastructure debt investments, and our success depends, in part, on our ability to do so. Starwood Energy Group has no obligation to provide any services to us, and so our ability to access

Starwood Energy Group's existing capabilities is dependent on our ongoing relationship with our Manager and Starwood Capital Group. See "—Risks Related to Our Relationship with Our Manager." Accordingly, we may not continue to have access to Starwood Energy Group and its officers and key personnel.

We are subject to the risks of investing in project finance, many of which are outside our control, and that may negatively impact our business and financial results.

We are subject to the risks of investing in project finance. Infrastructure loans are subject to the risk of default, foreclosure and loss, and the risk of loss may be greater than similar risks associated with loans made on other types of assets. The loan structure for project finance relies primarily on the underlying project's cash flows for repayment, with the project's assets, rights and interests, together with the equity in the project company, typically pledged as collateral. Accordingly, the ability of the project company to repay a project finance loan is dependent upon the successful development, construction and/or operation of such project rather than upon the existence of independent income or assets of the project company. Moreover, the loans are typically non-recourse or limited recourse to the project sponsor, and the project company, as a special purpose entity, typically has no assets other than the project. Accordingly, if the project's cash flows are reduced or are otherwise less than projected, the project company's ability to repay the loan will likely be impaired. The Infrastructure Lending Segment has made and will continue to make certain estimates regarding project cash flows during the underwriting of its investments. These estimates may not prove accurate, as actual results may vary from estimates. A project's cash flows can be adversely affected by, among other things:

- if the project involves new construction,
  - cost overruns,
  - delays in completion,
  - availability of land, building materials, energy, raw materials and transportation,
  - availability of work force, management personnel and reliable contractors, and
  - natural disasters (fire, drought, flood, earthquake) and war, civil unrest and strikes affecting contractors, suppliers or markets;
- shortfalls in expected capacity, output or efficiency;
- the terms of the power purchase or other offtake agreements used in the project;
- the creditworthiness of the project company and the project sponsor;
- competition;
- volatility in commodity prices;
- technology deployed, and the failure or degradation of equipment;
- inflation and fluctuations in exchange rates or interest rates;
- operation and maintenance costs;
- sufficiency of gas and electric transmission capabilities;
- licensing and permit requirements;
- increased environmental or other applicable regulations; and
- changes in national, international, regional, state or local economic conditions, laws and regulations.

In the event of any default under a project finance loan, we bear the risk of loss of principal to the extent of any deficiency between the value of the collateral, if any, and the principal and accrued interest of the loan, which could have a material adverse effect on our business, financial condition and results of operations. In the event of the bankruptcy of a project company, our investment will be deemed to be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession and our contractual rights may be unenforceable under state or other applicable law. Foreclosure proceedings against a project can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed investment.

The investment portfolio of our Infrastructure Lending Segment is concentrated in the power industry, which subjects the portfolio to more risks than if the investments were more diversified.

Many of the investments in the portfolio of our Infrastructure Lending Segment are focused in the power industry, including thermal power and renewable power. If there is a downturn in the U.S. or global power industry generally, the applicable infrastructure investments may default or not perform in accordance with expectations. In addition to the factors described above regarding the general risks of investing in project finance, the power industry and its subsectors can be adversely affected by, among other factors:

- market pricing for electricity;
- change in creditworthiness of the offtaker;
- unforeseen capital expenditures;
- government regulation and policy change; and
- world and regional events, politics and economic conditions.

In addition to investments focused in the power industry, our portfolio also contains investments related to projects in the midstream oil and gas industry, which also subjects us to certain risks inherent in the midstream oil and gas industry.

Loans to power projects or midstream oil and gas projects may be adversely affected if production from the projects declines. Such declines may be caused by various factors, including, as applicable, decreased access to capital or loss of economic incentive to complete a project or continue to operate a project, depletion of resources, catastrophic events affecting production, labor difficulties, political events, environmental proceedings, increased regulations, equipment failures and unexpected maintenance problems, failure to obtain necessary permits, unscheduled outages, unanticipated expenses, inability to successfully carry out new construction or acquisitions, import or export supply and demand disruptions or increased competition from alternative energy sources.

The default of one or more of the infrastructure loans as a result of a downturn within the energy industry generally, could have a material adverse effect on our business, financial condition and results of operations.

We may have difficulty meeting our obligations on the unfunded commitments of the infrastructure loans, which could have a material adverse effect on us.

Under certain circumstances, we may find it difficult to meet our remaining funding obligations with the existing infrastructure loans, or with respect to future infrastructure loans, from our ordinary operations. In such situations, in order to meet our then-existing funding obligations, we may be required to: (i) sell assets in adverse market conditions; (ii) borrow on unfavorable terms; or (iii) fund the infrastructure loans with amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt. These alternatives could increase our costs or reduce our equity. Thus, compliance with the funding obligations with respect to the infrastructure loans may hinder our ability to grow, which could have a material adverse effect on our business, financial condition and results of operations. In the event that we are unable to meet our funding obligations with respect to one or more infrastructure loans, we would be in breach of such loan(s), which could damage our reputation and could result in a lawsuit being brought by the project company or others, which could result in substantial costs and divert our attention and resources.

The power industry is subject to extensive regulation, which could adversely impact the business and financial performance of the projects to which our infrastructure loans relate.

The projects to which our infrastructure loans relate, which are focused in the power industry, are subject to significant and extensive federal, international, state and local governmental regulation, including how facilities are constructed, maintained and operated, environmental and safety controls, and the prices they may charge for the products and services they provide. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Stricter laws, regulations or enforcement policies could be enacted in the future that likely would increase compliance costs, which could adversely affect the business and financial performance of the projects. Any of the foregoing could result in a default on one or more of our investments, which could have a material adverse effect on our business, financial condition and results of operations.

We generally are not able to control the projects underlying our infrastructure loans.

Although the covenants in the financing documentation relating to the infrastructure loans generally restrict certain actions that may be taken by project companies (including restrictions on making equity distributions and incurring additional indebtedness), we generally are not able to control the projects underlying our infrastructure loans. As a result, we are subject to the risk that the project company may make business decisions with which we disagree or that the project company may take risks or otherwise act in ways that do not serve our interests.

Operation of a project underlying an infrastructure loan involves significant risks and hazards that may impair the project company's ability to repay the loan, resulting in its default, which could have a material adverse effect on our business and financial results.

The ongoing operation of a project underlying any of our infrastructure loans involves risks that include, among other things, the breakdown or failure of equipment or processes or performance below expected levels of output or efficiency due to wear and tear, latent defect, design error or operator error or force majeure events. In addition to natural risks such as earthquake, flood, drought, lightning, wildfire, hurricane and wind, other hazards, such as fire, explosion, structural collapse and machinery failure, acts of terrorism or related acts of war, hostile cyber intrusions or other catastrophic events are inherent risks in the operation of a project. These and other hazards can cause significant personal injury or loss of life, severe damage to and destruction of property, plant and equipment and contamination of, or damage to, the environment and suspension of operations. Operation of a project also involves risks that the operator will be unable to transport its product to its customers in an efficient manner due to a lack of transmission capacity. Unplanned outages of a project, including extensions of scheduled outages due to mechanical failures or other problems, occur from time to time. Unplanned outages typically increase operation and maintenance expenses and may reduce revenues. While a project typically maintains insurance, obtains warranties from vendors and obligates contractors to meet certain performance levels, the proceeds of such insurance, warranties or performance guarantees may not cover the lost revenues, increased expenses or liquidated damages payments should the project experience equipment breakdown or non-performance by contractors or vendors. A project's inability to operate its assets efficiently, manage capital expenditures and costs and generate earnings and cash flow could have a material adverse effect on the project company's ability to repay the loan, which could result in its default. A default on one or more of the infrastructure loans could have a material adverse effect on our business, financial condition and results of operations.

Tax considerations relating to our prior acquisition of the Infrastructure Lending Segment may reduce our net proceeds received from interest payments.

The Infrastructure Lending Segment was acquired by, and is held in, one or more domestic or foreign subsidiaries in order to facilitate our financing of the acquisition of that portfolio and aid in the maintenance of our status as a REIT under the Code. The domestic subsidiary that initially acquired a significant portion of the pre-existing investment portfolio of the Infrastructure Lending Segment is disregarded as to our company for U.S. federal income tax purposes and we have elected to have other foreign and domestic subsidiaries that hold or will hold a portion of the pre-existing portfolio each treated as a TRS. With respect to newly originated infrastructure loans, we will hold such loans either in a subsidiary that is disregarded as to our company for U.S. federal income tax purposes or in foreign or domestic TRSs that are subject to U.S. taxation under the general rules applicable to such corporations. See "—Risks Related to Taxation as a REIT."

Certain interest payments to us or to any such domestic or foreign subsidiary made by the underlying borrowers with respect to the infrastructure loans may be subject to withholding taxes in the jurisdictions in which the related facilities or borrowers are located, which would reduce the net proceeds from such payments that are received by us.

Risks Related to Our Investing and Servicing Segment

The business activities of our Investing and Servicing Segment, particularly our special servicing business, expose us to certain risks.

In our Investing and Servicing Segment, we derive a substantial portion of our cash flows from the special servicing of pools of commercial mortgage loans. As special servicer, we typically receive fees based upon the outstanding balance of the loans that are being specially serviced by us. The balance of loans in special servicing where we act as special servicer could decline significantly and as such our servicing fees could likewise decline materially. The special servicing industry is highly competitive, and our inability to compete successfully with other firms to maintain our existing servicing portfolio and obtain future servicing opportunities could have a material and adverse impact on our future cash flows and results of operations. Because the right to appoint the special servicer for securitized mortgage loans generally resides with the holder of the "controlling class" position in the relevant trust and may migrate to holders of different classes of securities as additional losses are realized, our ability to maintain our existing servicing rights and obtain future servicing opportunities may require, in many cases, the acquisition of additional CMBS. Accordingly, our ability to compete effectively may depend, in part, on the availability of additional debt or equity capital to fund these purchases. Additionally, our existing servicing portfolio is subject to “run off,” meaning that mortgage loans serviced by us may be prepaid prior to maturity, refinanced with a mortgage not serviced by us, liquidated through foreclosure, deed-in-lieu of foreclosure or other liquidation processes or repaid through standard amortization of principal, resulting in lower servicing fees and/or lower returns on the subordinated securities owned by us. Improving economic conditions and property prices and declines in interest rates and greater availability of mortgage financing could reduce the incidence of assets going into special servicing and reduce our revenues from special servicing, including as a result of lower fees under new arrangements. The fair value of our servicing rights may decrease under the foregoing circumstances, resulting in losses.

In connection with the special servicing of mortgage loans, a special servicer may, at the direction of the directing certificateholder, generally take actions with respect to the specially serviced mortgage loans that could adversely affect the holders of some or all of the more senior classes of CMBS. We may hold subordinated CMBS and we may or may not be the directing holder in any CMBS transaction in which we also act as special servicer. We may have conflicts of interest in exercising our rights as holder of subordinated classes of CMBS and in owning the entity that also acts as the special servicer for such transactions. It is possible that we, acting as the directing certificateholder for a CMBS transaction, may direct special servicer actions that conflict with the interests of certain other classes of the CMBS issued in that transaction. The special servicer is not permitted to take actions that are prohibited by law or that violate the applicable servicing standard or the terms of the applicable CMBS documentation or the applicable mortgage loan documentation, and we are subject to the risk of claims asserted by mortgage loan borrowers and the holders of other classes of CMBS that we have violated applicable law or, if applicable, the servicing standard and our other obligations under such CMBS documentation or mortgage loan documentation, as a result of actions we may take.

The conduit operations in our Investing and Servicing Segment are subject to volatile market conditions and significant competition. In addition, the conduit business may suffer losses as a result of ineffective or inadequate hedges and credit issues.

The business activities in our Investing and Servicing Segment are subject to an evolving regulatory environment that may affect certain aspects of these activities.

In our Investing and Servicing Segment, we acquire subordinated securities issued by and act as special servicer for securitizations. As a result of the dislocation of the credit markets, the securitization industry has become subject to additional regulation. In particular, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), various federal agencies have promulgated a rule that generally requires issuers in securitizations to retain 5% of the risk associated with the securities. While the rule as adopted generally allows the purchase of the CMBS B-Piece by a party not affiliated with the issuer to satisfy the risk retention requirement, current CMBS B-Pieces are generally not large enough to fully satisfy the 5% requirement. Accordingly, buyers of B-Pieces such as us may be required to purchase larger B-Pieces, potentially reducing returns on such investments. Furthermore, any such B-Pieces purchased by a party (such as us) unaffiliated with the issuer generally cannot be transferred for a period of five years following the closing date of the securitization or hedged against credit risk. These restrictions would reduce our liquidity and could potentially reduce our returns on such investments.

The mortgage loan servicing activities of our Investing and Servicing Segment are subject to a still evolving set of regulations, including regulations being promulgated under the Dodd-Frank Act. In addition, various governmental authorities have increased their investigative focus on the activities of mortgage loan servicers. As a result, we may have to spend additional resources and devote additional management time to address any regulatory concerns, which may reduce the resources available to grow our business. In addition, if we fail to operate the servicing activities of our Investing and Servicing Segment in compliance with existing and future regulations, our business, reputation, financial condition or results of operations could be materially and adversely affected.

The risks of investment in subordinated CMBS are magnified in the case of our Investing and Servicing Segment, where the principal payments received by the CMBS trust are made in priority to the higher rated securities.

CMBS are subject to the various risks that relate to the pool of underlying commercial mortgage loans and any other assets in which the CMBS represents an interest. In addition, CMBS are subject to additional risks arising from the geographic, property type and other types of concentrations in the pool of underlying commercial mortgage loans, which risks are magnified by the subordinated nature of the CMBS in which we invest in our Investing and Servicing Segment. In the event of defaults on the mortgage loans in the CMBS trusts, we bear a risk of loss on our related subordinated

CMBS to the extent of deficiencies between the value of the collateral and the principal, accrued interest and unpaid fees and expenses on the mortgage loans, which may be offset to some extent by the special servicing fees received by us on those mortgage loans. The yield to maturity on the CMBS depends largely upon the price paid for the CMBS, which are generally sold at a discount at issuance and trade at even steeper discounts in the secondary markets. Further, the yield to maturity on CMBS depends, in significant part, upon the rate and timing of principal payments on the underlying mortgage loans, including both voluntary prepayments, if permitted, and involuntary prepayments, such as prepayments resulting from casualty or condemnation, defaults and liquidations or repurchases upon breaches of representations and warranties or document defects. Any changes in the weighted average lives of CMBS may adversely affect yield on the CMBS. Prepayments resulting in a shortening of weighted average lives of CMBS may be made at a time of low interest rates when we may be unable to reinvest the resulting payment of principal on the CMBS at a rate comparable to that being earned on the CMBS, while delays and extensions resulting in a lengthening of those weighted average lives may occur at a time of high interest rates when we may have been able to reinvest scheduled principal payments at higher rates.

The exercise of remedies and successful realization of liquidation proceeds relating to commercial mortgage loans underlying CMBS may be highly dependent on our performance as special servicer. We attempt to underwrite investments on a "loss-adjusted" basis, which projects a certain level of performance. However, this underwriting may not accurately predict the timing or magnitude of such losses. To the extent that this underwriting has incorrectly anticipated the timing or magnitude of losses, our business may be adversely affected. Some of the mortgage loans underlying the CMBS are already in default and additional loans may default in the future. In the case of such defaults, cash flows of CMBS investments held by us may be adversely affected as any reduction in the mortgage payments or principal losses on liquidation of any mortgage loan may be applied to the class of CMBS securities relating to such defaulted loans that we hold.

The market value of CMBS could fluctuate materially as a result of various risks that are out of our control and may result in significant losses.

The market value of CMBS investments could fluctuate materially over time as the result of changes in mortgage spreads, treasury bond interest rates, capital market supply and demand factors, and many other factors that affect high-yield fixed income products. These factors are out of our control and could impair our ability to obtain short-term financing on the CMBS. CMBS investments, especially subordinated classes of CMBS, may have no, or only a limited, trading market. The financial markets in the past have experienced and could in the future experience a period of volatility and reduced liquidity, which may reoccur or continue and reduce the market value of CMBS. Some or all of the CMBS, especially subordinated classes of CMBS, may be subject to restrictions on transfer and may be considered illiquid.

Most of the assets in our Investing and Servicing Segment are held through, or are ownership interests in, entities subject to entity level or foreign taxes, which cannot be passed through to, or used by, our stockholders to reduce taxes they owe.

Most of the assets in our Investing and Servicing Segment are held through a TRS, which is subject to entity level taxes on income that it earns. Such taxes have materially increased the taxes paid by our TRSs. In addition, certain of the assets in our Investing and Servicing Segment include entities organized or assets located in foreign jurisdictions. Taxes that we or such entities pay in foreign jurisdictions may not be passed through to, or used by, our stockholders as a foreign tax credit or otherwise.

Our Consolidated Financial Statements changed materially following our acquisition of LNR, as we became required to consolidate the assets and liabilities of CMBS pools in which we own the controlling class of subordinated securities and are considered the "primary beneficiary."

Following our acquisition of LNR, we became required to consolidate the assets and liabilities of certain CMBS pools in which we own the controlling class of subordinated securities into our financial statements, even though the value of the subordinated securities may represent a small interest relative to the size of the pool. Under GAAP, companies are required to consolidate VIEs in which they are determined to be the primary beneficiary. A VIE must be consolidated only by its primary beneficiary, which is defined as the party who, along with its affiliates and agents, has a potentially significant interest in the entity and controls the entity's significant decisions. As a result of the foregoing, our financial statements are more complex and may be more difficult to understand than if we did not consolidate the CMBS pools.

Risks Related to Our Organization and Structure

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law (the "MGCL") may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-prevailing market price of our common stock. We are subject to the "business combination" provisions of the MGCL that, subject to limitations, prohibit certain business combinations (including a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of our then outstanding voting capital stock or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting capital stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder. After the five-year prohibition, any business combination between us and an interested stockholder generally must be recommended by our board of directors and approved by the affirmative vote of at least (i) 80% of the votes entitled to be cast by holders of outstanding shares of our voting capital stock and (ii) two-thirds of the votes entitled to be cast by holders of voting capital 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 voting requirements do not apply if our 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. These provisions of the MGCL also do not apply to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has by resolution exempted business combinations between us and any other person, provided that such business combination is first approved by our board of directors (including a majority of our directors who are not affiliates or associates of such person).

The "control share" provisions of the MGCL provide that "control shares" of a Maryland corporation (defined as shares which, when aggregated with other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquirer of control shares, our officers and our personnel who are also our directors. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock, but this provision could be amended or eliminated at any time in the future.

The "unsolicited takeover" provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not yet have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide the holders of shares of common stock with the opportunity to realize a premium over the then current market price.

Our authorized but unissued shares of common and preferred stock may prevent a change in control.

Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of our shares of stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our shares of common stock or otherwise be in the best interest of our stockholders.

Maintenance of our exemption from registration under the Investment Company Act imposes significant limits on our operations.

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. Because we are a holding company that conducts our businesses primarily through wholly-owned subsidiaries, the securities issued by these subsidiaries that are excepted from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the Investment

Company Act, together with any other investment securities we own, may not have a combined value in excess of 40% of the value of our adjusted total assets on an unconsolidated basis. This requirement limits the types of businesses in which we may engage through our subsidiaries. In addition, the assets we and our subsidiaries may acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act, which may adversely affect our performance.

If the value of securities issued by our subsidiaries that are excepted from the definition of "investment company" by Section 3(c)(1) or 3(c)(7) of the Investment Company Act, together with any other investment securities we own, exceeds 40% of our adjusted total assets on an unconsolidated basis, or if one or more of such subsidiaries fail to maintain an exception or exemption from the Investment Company Act, we could, among other things, be required either (i) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (ii) to register as an investment company under the Investment Company Act, either of which could have an adverse effect on us and the market price of our securities. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

Many of our subsidiaries rely on the exclusion from the definition of an investment company under Section 3(c)(5)(C) of the Investment Company Act, which is available for entities "primarily engaged in [the business of] . . . purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion, as interpreted by the SEC staff, generally requires that at least 55% of a subsidiary's portfolio must be comprised of qualifying real estate assets and at least 80% of its portfolio must be comprised of qualifying real estate assets and real estate-related assets (and no more than 20% comprised of miscellaneous assets). In addition, certain of our subsidiaries in our Infrastructure Lending Segment may seek to rely, among other things, on the exceptions from the definition of "investment company" contained in Section 3(c)(5)(A) or Section 3(c)(5)(B) of the Investment Company Act. Section 3(c)(5)(A) provides an exception from the definition of "investment company" for entities that are primarily engaged in the business of purchasing or otherwise acquiring notes, drafts, acceptances, open accounts receivable, and other obligations representing part or all of the sales price of merchandise, insurance, and services. Section 3(c)(5)(B) excepts from the definition of "investment company" entities that are primarily engaged in the business of making loans to manufacturers, wholesalers, retailers and prospective purchasers of specified merchandise, insurance or services.

As with other provisions of the Investment Company Act, including Section 3(c)(5)(C), reliance on Sections 3(c)(5)(A) and/or 3(c)(5)(B) is based in large part on the nature of the assets held by the relevant entities, and we have analyzed the availability of Section 3(c)(5)(A) and/or 3(c)(5)(B) to certain of our subsidiaries in the Infrastructure Lending Segment based on guidance from the SEC staff on the types of assets that qualify an entity to rely on either exception. However, the SEC guidance is somewhat limited in this area and the SEC may in the future issue additional guidance through no action letters or otherwise and there can be no assurance that the assets of our subsidiaries in the Infrastructure Lending Segment will conform to such guidance.

In that regard, to the extent that any of such subsidiaries can no longer rely on the above Sections, such subsidiaries may be required to rely on other exceptions from the definition of "investment company", such as Section 3(c)(1) or 3(c)(7), in which case we will need to treat our holdings therein as investment securities for purposes of the 40% test described above, or otherwise change the manner in which they conduct operations. Any such change could have an adverse effect on the performance of such subsidiaries and their ability to conduct their operations as currently contemplated.

In August 2011, the SEC solicited public comment on a wide range of issues relating to Section 3(c)(5)(C) of the Investment Company Act, including the nature of the assets that qualify for purposes of the exemption and whether mortgage REITs should be regulated in a manner similar to investment companies. The laws and regulations governing the Investment Company Act status of REITs, including the Division of Investment Management of the SEC providing more specific or different guidance regarding these exemptions, could change in a manner that adversely affects our operations. If we or our subsidiaries fail to maintain an exception or exemption from the Investment Company Act, we could, among other things, be required to (i) change the manner in which we conduct our operations to avoid being required to register as an investment company, (ii) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (iii) register as an investment company (which, among other things, would require us to comply with the leverage constraints applicable to investment companies), any of which could negatively affect the value of our common stock, the sustainability of our business model and our ability to make distributions to our stockholders, which could, in turn, materially and adversely affect the market price of our common stock.

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

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

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.

Under Maryland law generally, a director's actions will be upheld if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, 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
- active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter authorizes us to indemnify our 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 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. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with other companies.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.

Our charter provides that a director may only be removed for cause upon the affirmative vote of holders of two-thirds of the votes entitled to be cast in the election of directors. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in control of our company that is in the best interests of our stockholders.

Ownership limitations may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares.

In order for us to qualify as a REIT, no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. To preserve our REIT qualification, our charter generally prohibits any person from directly or indirectly owning more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our capital stock or more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock. This ownership limitation could have the effect of discouraging a takeover or other transaction in which holders of our common stock might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests.

Risks Related to Taxation as a REIT

If we do not qualify as a REIT or fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders.

We intend to continue to operate in a manner that will allow us to qualify as a REIT for U.S. federal income tax purposes. We have not requested nor obtained a ruling from the IRS as to our REIT qualification. Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our analysis of the character of our income and our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for U.S. federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements as described below. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes. Accordingly, there can be no assurance that the IRS will not contend that our interests in subsidiaries or in securities of other issuers will not cause a violation of the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax and applicable state and local taxes, on our taxable income at regular corporate rates, and distributions made to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our common stock. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Ordinary dividends payable by REITs do not qualify for the reduced tax rates available for some corporate dividends.

The maximum tax rate applicable to “qualified dividends” payable by regular U.S. corporations to domestic stockholders that are individuals, trusts or estates is currently 20%. Dividends payable by REITs generally are not eligible for that reduced rate. However, pursuant to the 2017 Tax Cuts and Jobs Act, such domestic stockholders may generally be allowed to deduct from their taxable income one-fifth of the ordinary dividends payable to them by REITs for taxable years beginning after December 31, 2017 and before January 1, 2026. This would amount to a reduction in the effective tax rate on REIT dividends as compared to prior law.

However, the more favorable rates that will nevertheless continue to apply to regular corporate qualified dividends could cause investors who are individuals, trusts or estates to perceive investments in REITs to be relatively less attractive as a federal income tax matter than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including ours.

REIT distribution requirements could adversely affect our ability to continue to execute our business plan.

We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to continue to make distributions to our stockholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may be required to accrue income from mortgage loans, MBS and other types of debt securities or interests in debt securities before we receive any payments of interest or principal on such assets. We may also acquire distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are “significant modifications” under the applicable U.S. Treasury regulations, the modified debt may be considered to have been reissued to us at a gain in a debt-for-debt exchange with the borrower, with gain recognized by us to the extent that the principal amount of the modified debt exceeds our cost of purchasing it prior to modification. In addition, pursuant to the 2017 Tax Cuts and Jobs Act, we are generally required to recognize certain amounts in income no later than the time such amounts are reflected on our financial statements filed with the SEC.

We may also be required under the terms of indebtedness that we incur to use cash received from interest payments to make principal payments on that indebtedness, with the effect of recognizing income but not having a corresponding amount of cash available for distribution to our stockholders.

As a result, we may find it difficult or impossible to meet distribution requirements from our ordinary operations in certain circumstances. In particular, where we experience differences in timing between the recognition of taxable income and the actual receipt of cash, the requirement to distribute a substantial portion of our taxable income could cause us to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt or (iv) make a taxable distribution of our shares, as part of a distribution in which stockholders may elect to receive shares (subject to a limit measured as a percentage of the total distribution), in order to comply with REIT requirements. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

We may choose to make distributions to our stockholders in our own stock, or make a distribution of a subsidiary's common stock, in which case our stockholders could be required to pay income taxes in excess of the cash dividends they receive.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. We may also determine to distribute a taxable dividend in the stock of a subsidiary in connection with a spin-off or other transaction. Taxable stockholders receiving such distributions will be required to include the full amount of the distribution as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of that stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

The stock ownership limit imposed by the Code for REITs and our charter may restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year following our first year. Our charter, with certain exceptions, authorizes our board of directors to take the actions that are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8% of the aggregate value of our outstanding capital stock. Our board may grant an exemption in its sole discretion, subject to such conditions, representations and undertakings as it may determine. The ownership limits imposed by the tax law are based upon direct or indirect ownership by "individuals," but only during the last half of a tax year. The ownership limits contained in our charter key off the ownership at any time by any "person," which term includes entities. These ownership limitations in our charter are common in REIT charters and are intended to provide added assurance of compliance with the tax law requirements, and to minimize administrative burdens. However, these ownership limits might also delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Even as a REIT, we may face tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. In addition, in order to continue to meet the REIT qualification requirements, prevent the recognition of certain types of non-cash income, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold a significant amount of our assets through our TRSs or other subsidiary corporations that will be subject to corporate-level income tax at regular rates. In addition, if we lend money to a TRS, the TRS may be unable to deduct all or a portion of the interest paid to us, which could result in an even higher corporate-level tax liability. Any of these taxes would decrease cash available for distribution to our stockholders.

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

To qualify as a REIT for U.S. federal income tax purposes, we must satisfy ongoing tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. In addition, in certain cases, the modification of a debt instrument could result in the conversion of the instrument from a qualifying real estate asset to a wholly or partially non-qualifying asset that must be contributed to a TRS or disposed of in order for us to maintain our REIT status. Compliance with the source-of-income requirements may also limit our ability to acquire debt instruments at a discount from their face amount. Thus, compliance with the REIT requirements may hinder our ability to make, and in certain cases to maintain ownership of, certain attractive investments.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and certain kinds of MBS. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total securities can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT.

We have entered into financing arrangements that are structured as sale and repurchase agreements pursuant to which we would nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings which are secured by the assets sold pursuant thereto. We believe that we would be treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such 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 assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire debt instruments in the secondary market for less than their face amount. The discount at which such debt instruments are acquired may reflect doubts about their ultimate collectability rather than current market interest rates. The amount of such discount will nevertheless generally be treated as "market discount" for U.S. federal income tax purposes. Under the rules applicable in reporting market discount as income, such market discount may have to be included in income as if the debt instruments were assured of being collected in full. If we ultimately collect less on the debt instruments than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions. In addition, we may acquire distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are "significant modifications" under applicable U.S. Treasury regulations, the modified debt may be considered to have been reissued to us at a gain in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt, even if the value of the debt or the payment expectations have not changed.

Moreover, some of the MBS that we acquire may have been issued with original issue discount. We will be required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such MBS will be made. If such MBS turns out not to be fully collectible, an offsetting loss deduction will become available only in the later year that uncollectability is provable.

Finally, in the event that any debt instruments or MBS acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to subordinate MBS at its stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

The "taxable mortgage pool" rules will increase the taxes that we or our stockholders may incur, and limit our actions with respect to our taxable mortgage pool.

Securitizations in the form of bonds or notes secured principally by mortgage loans generally result in the creation of taxable mortgage pools ("TMPs") for U.S. federal income tax purposes. The debt securities issued by TMPs are sometimes referred to as "collateralized mortgage obligations" ("CMOs"). We have issued CMOs through a TMP. Unless a TMP is wholly-owned by a REIT, it is subject to taxation as a corporation. However, so long as a REIT owns 100% of the equity interests in a TMP, the TMP will not be taxed as a corporation. Instead, certain categories of the REIT's stockholders, such as foreign stockholders eligible for treaty or sovereign benefits, stockholders with net operating losses, and generally tax-exempt stockholders that are subject to unrelated business income tax, may be subject to taxation, or to increased taxes, on any portion, known as "excess inclusions", of their dividend income from the REIT that is attributable to the TMP, but only to the extent that the REIT actually distributes "excess inclusions" to them. We intend not to distribute "excess inclusions", but to pay the tax on "excess inclusions" ourselves. Notwithstanding our intention to try to avoid distributions to our stockholders of "excess inclusions", it is possible that some portion of our dividends to our stockholders may be so characterized.

In order to control better, and to attempt to avoid, the distribution of "excess inclusions" to our stockholders, our TMP is wholly-owned by a subsidiary REIT that intends to elect to be treated as a REIT commencing with its taxable year ending December 31, 2019. Our subsidiary REIT will be required to satisfy, on a stand-alone basis, the REIT asset, income, organizational, distribution, stockholder ownership and other requirements described above, and if it were to fail to qualify as a REIT, then (i) our subsidiary REIT would face adverse tax consequences similar to those described above with respect to our qualification as a REIT and (ii) such failure could have an adverse effect on our ability to comply with the REIT income and asset tests and thus could impair our ability to qualify as a REIT unless we could avail ourselves of certain relief provisions.

Because our TMP must at all times be owned by a REIT, we are restricted from selling equity interests in it, or selling any notes or bonds issued by it that might be considered to be equity for tax purposes, to other investors if doing so would subject it to taxation. These restrictions limit the liquidity of our investment in our TMP and may prevent us from incurring greater leverage on that investment in order to maximize our returns from it.

The tax on prohibited transactions may limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, which would be treated as sales for U.S. 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 to dispose of or securitize loans in a manner that was treated as a sale of the loans for U.S. federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us.

Our investments in construction loans require us to make estimates about the fair value of land improvements that may be challenged by the IRS.

We invest in construction loans, the interest from which is qualifying income for purposes of the REIT income tests, provided that the loan value of the real property securing the construction loan is equal to or greater than the highest outstanding principal amount of the construction loan during any taxable year. For purposes of construction loans, the loan value of the real property is the fair value of the land plus the reasonably estimated cost of the improvements or developments (other than personal property) that secure the loan and that are to be constructed from the proceeds of the loan. There can be no assurance that the IRS would not challenge our estimate of the loan value of the real property.

The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

We invest in mezzanine loans, for which the IRS has provided a safe harbor but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it 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. We may acquire mezzanine loans that do not meet all of the requirements of this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge such loan's treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.

Liquidation of assets may jeopardize our REIT qualification.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code substantially limit our ability to hedge our assets and liabilities. Any income from a hedging transaction we enter into either (i) to manage risk of interest rate or price changes with respect to borrowings made or to be made to acquire or carry real estate assets, (ii) to manage risk of currency fluctuations with respect to items of income that qualify for purposes of the REIT 75% or 95% gross income tests or assets that generate such income or (iii) to hedge another instrument that hedges risks described in clause (i) or (ii) for a period following the extinguishment of the liability or the disposition of the asset that was previously hedged by the instrument, and, in each case, such instrument is properly identified under applicable U.S. Treasury regulations, does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a domestic TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will not directly reduce our REIT taxable income but may reduce current or future taxable income in the TRS.

Partnership tax audits could increase the tax liability borne by us in the event of a U.S. federal income tax audit of a subsidiary partnership.

In connection with U.S. federal income tax audits of partnerships (such as certain of our subsidiaries) and the collection of any tax resulting from any such audits or other tax proceedings, generally for taxable years beginning after December 31, 2017, the partnership itself may be liable for partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit, regardless of changes in the composition of the partners (or their relative ownership) between the year under audit and the year of the adjustment. The rules also include an elective alternative method under which the additional taxes resulting from the adjustment are assessed from the affected partners, subject to a higher rate of interest than otherwise would apply. Although regulations have been issued and address some aspects of these rules, questions remain as to how they will apply. However, these rules could increase the U.S. federal income tax, interest, and/or penalties economically borne by us in the event of a U.S. federal income tax audit of a subsidiary partnership in comparison to prior law.

Legislative or other actions affecting REITs could materially and adversely affect us and our stockholders.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could materially and adversely affect us and our stockholders. We cannot predict how changes in the tax laws might affect us or our stockholders. New legislation, U.S. Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the U.S. federal income tax consequences of such qualification.

In addition, the 2017 Tax Cuts and Jobs Act made substantial changes to the Code. Among those changes are a significant permanent reduction in the generally applicable corporate tax rate, changes in the taxation of individuals and other non-corporate taxpayers that generally but not universally reduce their taxes on a temporary basis subject to "sunset" provisions, the elimination or modification of various currently allowed deductions (including additional limitations on the deductibility of business interest and substantial limitation of the deduction for personal, state and local taxes imposed on individuals), and preferential taxation of income (including REIT dividends) derived by non-corporate taxpayers from "pass-through" entities. The Tax Cuts and Jobs Act also imposes certain additional limitations on the deduction of net operating losses, which may in the future cause us to make distributions that will be taxable to our stockholders to the extent of our current or accumulated earnings and profits in order to comply with the annual REIT distribution requirements. Finally, the Tax Cuts and Jobs Act also makes significant changes in the international tax rules, which generally require corporations to include in their taxable income, and consequently in the case of REITs to distribute, certain amounts with respect to the current earnings of foreign subsidiaries. The effect of these, and the many other, changes made in the Tax Cuts and Jobs Act is highly uncertain, both in terms of their direct effect on the taxation of an investment in our common stock and their indirect effect on the value of our assets. Furthermore, many of the provisions of the Tax Cuts and Jobs Act will require guidance through the issuance of U.S. Treasury regulations in order to assess their effect. There may be a substantial delay before such regulations are promulgated, increasing the uncertainty as to the ultimate effect of the statutory amendments on us. It is also likely that there will be technical corrections legislation proposed with respect to the Tax Cuts and Jobs Act, the timing and effect of which cannot be predicted and may be adverse to us or our stockholders.

Risks Related to Our Common Stock

The market price and trading volume of our common stock could be volatile and the market price of our common stock could decline, resulting in a substantial or complete loss of your investment.

The stock markets, including the NYSE, which is the exchange on which our common stock is listed, have experienced significant price and volume fluctuations. In the past, overall weakness in the economy and other factors have contributed to extreme volatility of the equity markets generally, including the market price of our common stock. As a result, the market price of our common stock has been and may continue to be volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. Some of the factors that could negatively affect our stock price or result in fluctuations in the price or trading volume of our common stock include:

- our actual or projected operating results, financial condition, cash flows and liquidity, or changes in business strategy or prospects;
- actual or perceived conflicts of interest with our Manager or Starwood Capital Group and individuals, including our executives;
- equity issuances by us or share resales by our stockholders, or the perception that such issuances or resales may occur;
- actual or anticipated accounting problems;
- publication of research reports about us or the real estate industry;
- changes in market valuations of similar companies;
- adverse market reaction to the level of leverage we employ;
- additions to or departures of our Manager's or Starwood Capital Group's key personnel;
- speculation in the press or investment community;
- our failure to meet, or the lowering of, our earnings estimates or those of any securities analysts;
- increases in market interest rates, which may lead investors to demand a higher distribution yield for our common stock and would result in increased interest expenses on our debt;
- failure to maintain our REIT qualification;
- uncertainty regarding our exemption from the Investment Company Act;
- price and volume fluctuations in the stock market generally; and
- general market and economic conditions, including the current state of the credit and capital markets.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their share price. This type of litigation could result in substantial costs and divert our Manager's attention and resources.

There may be future dilution of our common stock as a result of additional issuances of our securities, which could adversely impact our stock price.

Our board of directors is authorized under our charter to, among other things, authorize the issuance of additional shares of our common stock or the issuance of shares of preferred stock or additional securities convertible or exchangeable into equity securities, without stockholder approval. Future issuances of our common stock or shares of preferred stock or securities convertible or exchangeable into equity securities may dilute the ownership interest of our existing stockholders. Because our decision to issue additional equity or convertible or exchangeable securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future issuances. Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock. Also, we cannot predict the effect, if any, of future sales of our common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock or the perception that such sales could occur may adversely affect the prevailing market price for our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company leases office space in Greenwich, CT; Miami Beach, FL; San Francisco, CA; New York, NY; Atlanta, GA; Los Angeles, CA; Charlotte, NC and Stamford, CT. Our headquarters is located in Greenwich, CT in office space leased by our Manager. Refer to Schedule III included in Item 8 of this Form 10-K for a listing of investment properties owned as of December 31, 2019.

Item 3. Legal Proceedings.

Currently, no material legal proceedings are pending against us that could have a material adverse effect on our business, financial position or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information and Dividends

The Company’s common stock has been listed on the NYSE and is traded under the symbol “STWD” since its IPO in August 2009. On February 18, 2020, the closing price of our common stock, as reported by the NYSE, was $25.81 per share.

We intend to make regular quarterly distributions to holders of our common stock and distribution equivalents to holders of restricted stock units which are settled in shares of common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. We generally intend over time to pay quarterly distributions in an amount at least equal to our taxable income. Refer to Note 17 to the Consolidated Financial Statements for the Company’s dividend history for the three years ended December 31, 2019.

On February 25, 2020, our board of directors declared a dividend of $0.48 per share for the first quarter of 2020, which is payable on April 15, 2020 to common stockholders of record as of March 31, 2020.

Holders

As of February 18, 2020, there were 350 holders of record of the Company’s 282,613,156 shares of common stock outstanding. One of the holders of record is Cede & Co., which holds shares as nominee for The Depository Trust Company which itself holds shares on behalf of other beneficial owners of our common stock.

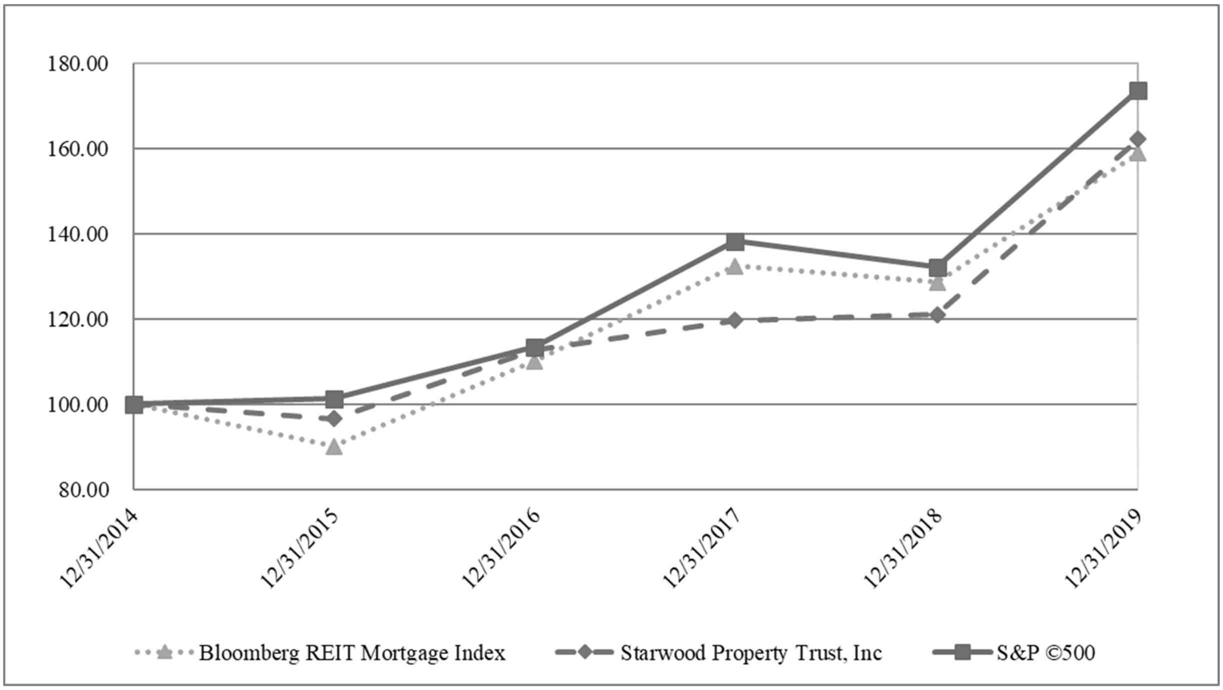
Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item is set forth under Item 12 of this Form 10-K and is incorporated herein by reference.

Stock Performance Graph

CUMULATIVE TOTAL RETURN

Based upon initial investment of $100 on December 31, 2014(1)



	Starwood Property Trust	S&P © 500	Bloomberg REIT Mortgage Index
12/31/2014	$ 100.00	$ 100.00	$ 100.00
12/31/2015	$ 96.58	$ 101.38	$ 90.11
12/31/2016	$ 112.92	$ 113.51	$ 110.18
12/31/2017	$ 119.75	$ 138.29	$ 132.51
12/31/2018	$ 121.06	$ 132.23	$ 128.65
12/31/2019	$ 162.25	$ 173.86	$ 159.04

(1) Dividend reinvestment is assumed.

Sales of Unregistered Equity Securities

During the year ended December 31, 2019, we issued 120,926 Class A Units in connection with the acquisition of the Woodstar II Portfolio as discussed in Note 3 to the Consolidated Financial Statements.

The Class A Unitholders have the right to redeem their Class A Units for cash or, in the sole discretion of the Company, shares of the Company's common stock on a one-for-one basis, subject to certain anti-dilution adjustments. In connection with the issuance of the Class A Units, the Class A Unitholders received certain registration rights with respect to the shares of the Company's common stock, if any, issued upon the redemption of Class A Units.

The Class A Units were issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933.

Issuer Purchases of Equity Securities

There were no purchases of common stock during the three months ended December 31, 2019.

Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our Consolidated Financial Statements, including the notes thereto, included elsewhere herein. All amounts are in thousands, except per share data.

	For the year ended December 31,				
	2019	2018	2017	2016	2015
Operating Data:					
Revenues (1)	$ 1,196,419	$ 1,109,280	$ 879,888	$ 784,667	$ 735,877
Costs and expenses	1,029,824	977,632	735,249	651,127	536,279
Other income (2)	383,572	294,879	299,650	242,455	269,791
Income tax provision	(13,232)	(15,330)	(31,522)	(8,344)	(17,206)
Income from continuing operations	536,935	411,197	412,767	367,651	452,183
Net income	536,935	411,197	412,767	367,651	452,183
Net income attributable to Starwood Property Trust, Inc.	509,664	385,830	400,770	365,186	450,697
Earnings per share:					
Basic	$ 1.81	$ 1.44	$ 1.53	$ 1.52	$ 1.92
Diluted	$ 1.79	$ 1.42	$ 1.52	$ 1.50	$ 1.91
Dividends declared per share of common stock	$ 1.92	$ 1.92	$ 1.92	$ 1.92	$ 1.92
Weighted-average basic shares of common stock outstanding	279,337	265,279	259,620	238,529	233,419
Balance Sheet Data:					
Investments in loans	$ 11,470,224	$ 9,794,254	$ 7,382,641	$ 5,946,274	$ 6,263,517
Investments in securities (3)	810,238	906,468	718,203	807,618	724,947
Investments in properties	2,266,440	2,784,890	2,647,481	1,944,720	919,225
Total assets (4)	78,042,336	68,262,453	62,941,289	77,256,266	85,698,354
Total financing arrangements	11,762,730	10,756,635	7,972,476	6,200,670	5,392,494
Total liabilities (4)	72,905,322	63,362,264	58,362,088	72,696,193	81,527,411
Total Starwood Property Trust, Inc. Stockholders' Equity	4,700,425	4,603,432	4,478,414	4,522,274	4,140,316
Total Equity	$ 5,137,014	$ 4,900,189	$ 4,579,201	$ 4,560,073	$ 4,170,943

(1) During the years ended December 31, 2019, 2018, 2017, 2016 and 2015, servicing fees and interest income of $144.7 million, $147.1 million, $179.4 million, $180.5 million and $230.8 million, respectively, were eliminated in consolidation pursuant to ASC 810.

(2) During the years ended December 31, 2019, 2018, 2017, 2016 and 2015, other income included $145.0 million, $148.0 million, $186.1 million, $181.2 million and $232.0 million, respectively, of additive net eliminations in consolidation pursuant to ASC 810.

(3) December 31, 2019, 2018, 2017, 2016 and 2015 balances exclude $1.4 billion, $1.2 billion, $1.0 billion, $959.0 million and $825.2 million, respectively, of CMBS and RMBS that were eliminated in consolidation pursuant to ASC 810.

(4) December 31, 2019 balances include $62.2 billion of VIE assets and $60.7 billion of VIE liabilities consolidated pursuant to ASC 810. December 31, 2018 balances include $53.4 billion of VIE assets and $52.2 billion of VIE liabilities consolidated pursuant to ASC 810. December 31, 2017 balances include $51.0 billion of VIE assets and $50.0 billion of VIE liabilities consolidated pursuant to ASC 810. December 31, 2016 balances include $67.1 billion of VIE assets and $66.1 billion of VIE liabilities consolidated pursuant to ASC 810. December 31, 2015 balances include $76.7 billion of VIE assets and $75.8 billion of VIE liabilities consolidated pursuant to ASC 810.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company should be read in conjunction with Item 6, "Selected Financial Data," and our accompanying Consolidated Financial Statements included in Item 8 of this Form 10-K. Certain statements we make under this Item 7 constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Special Note Regarding Forward-Looking Statements" preceding Part I of this Form 10-K. You should consider our forward-looking statements in light of our Consolidated Financial Statements and other financial information appearing elsewhere in this Form 10-K and our other filings with the SEC.

Business Objectives and Outlook

Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. We intend to achieve our objective by originating and acquiring target assets to create a diversified investment portfolio that is financed in a manner that is designed to deliver attractive returns across a variety of market conditions and economic cycles. We are focused on our three core competencies: transaction access, asset analysis and selection, and identification of attractive relative values within the real estate debt and equity markets.

Since our IPO in August 2009, we have evolved from a company focused on opportunistic acquisitions of real estate debt assets from distressed sellers to that of a full-service real estate finance platform that is primarily focused on the origination and acquisition of commercial real estate debt and equity investments across the capital structure, in both the U.S. and Europe. With the Starwood brand, market presence, and lending/asset management platform that we have developed, we are focused primarily on the following opportunities:

(1) Continue to expand our market presence as a leading provider of acquisition, refinance, development and expansion capital to large real estate projects (greater than $75 million) in infill locations, and other attractive market niches where our size and scale give us an advantage to provide a "one-stop" lending solution for real estate developers, owners and operators;

(2) Continue to expand our investment activities in subordinate CMBS and revenues from special servicing;

(3) Continue to expand our capabilities in syndication and securitization, which serve as a source of attractively priced, matched-term financing;

(4) Continue to leverage our Investing and Servicing Segment's sourcing and credit underwriting capabilities to expand our overall footprint in the commercial real estate debt markets;

(5) Expand our investment activities in both (i) targeted real estate equity investments and (ii) residential mortgage finance; and

(6) Expand our originations and acquisitions of infrastructure debt investments.

Recent Developments

<u>Developments During the Fourth Quarter of 2019</u>

Commercial and Residential Lending Segment

- Originated or acquired $2.2 billion of commercial loans during the quarter, including the following:
  - $525.0 million first mortgage and mezzanine loan to one of the largest real estate managers in the world for the renovation of a 1.8 million square foot mixed-use property located in California, of which the Company funded $240.0 million.
  - $324.3 million first mortgage and mezzanine loan to refinance the existing debt on two connected 12-story office buildings located in Washington, D.C., of which the Company funded $237.7 million.
  - $287.4 million first mortgage, mezzanine loan and preferred equity investment to finance the construction of a mixed-used development located in Pennsylvania, of which the Company funded $17.3 million.
  - $150.0 million first mortgage loan for the acquisition and repositioning of a 201-key five star hotel located in California, which the Company fully funded.
  - $147.0 million first mortgage for the refinancing of an in-place construction loan used to convert a vacant office building into a condominium building located in New York, which the Company fully funded.
- Funded $535.9 million of previously originated commercial loan commitments.
- Received gross proceeds of $748.2 million (net proceeds of $461.0 million) from sales, maturities and principal repayments on our commercial loans and single-borrower CMBS, of which $196.5 million related to loan sales.
- Acquired $541.1 million of residential mortgage loans.
- Received proceeds of $383.5 million, including retained RMBS of $41.0 million, from the securitization of $370.3 million of residential mortgage loans.

Infrastructure Lending Segment

- Originated or acquired $640.4 million of infrastructure loans and bonds, of which $15.0 million relates to revolvers, and funded $30.0 million of pre-existing infrastructure loan commitments.
- Received proceeds of $346.9 million from maturities and principal repayments on our infrastructure loans and bonds.

Property Segment

- Sold the U.S. entity which held the net assets related to our Ireland Portfolio. The properties within the entity were sold for a gross purchase price of €530.0 million. After certain adjustments, including a €20.7 million tax withholding which was treated as a reduction of purchase price, the net purchase price was €507.6 million, plus estimated net working capital. In connection with the transaction, the buyer assumed our existing third party debt totaling €316.3 million. Our basis in these assets was €394.7 million, net of €67.5 million of accumulated depreciation. The resulting gain, after selling costs, was €108.0 (or $119.7) million.
- Recognized an impairment charge of $71.9 million against the remainder of our investment in the Retail Fund. In November 2019, the Retail Fund's secured financing matured and was not repaid. In light of these events, we commissioned independent appraisals of the underlying assets in order to estimate the fair value of our

investment in the Retail Fund as of December 31, 2019. The impairment that we recognized was based upon the results of these appraisals.

Investing and Servicing Segment

- Entered into a newly-formed joint venture (the "CMBS JV"). In connection with the formation of this venture, we sold assets totaling $333.0 million to the CMBS JV, including $318.3 million of CMBS, $13.3 million of interests in various existing CMBS joint ventures, and $1.4 million of related interest receivables. We obtained a 51% interest in the venture for cash consideration of $169.9 million, and our joint venture partner obtained a 49% interest for $163.2 million. The $13.3 million of joint venture interests that we contributed into the CMBS JV relate to joint ventures which we consolidate. Refer to Note 17 to the Consolidated Financial Statements for further detail.

- Acquired CMBS for a purchase price of $162.9 million, net of non-controlling interests, and sold CMBS for total gross proceeds of $37.9 million.

- Sold commercial real estate for gross proceeds of $94.4 million and recognized net gains of $37.7 million.

- Originated commercial conduit loans of $683.0 million. Separately, received proceeds of $1.0 billion from sales of previously originated commercial conduit loans.

- Obtained eight new special servicing assignments for CMBS trusts with a total unpaid principal balance of $5.7 billion.

<u>Developments During 2019</u>

Commercial and Residential Lending Segment

- In August 2019, we refinanced a pool of our commercial loans held-for-investment through a collateralized loan obligation ("CLO"), STWD 2019-FL1. The CLO has a contractual maturity of July 2038 and a weighted average cost of financing of LIBOR + 1.65%, inclusive of the amortization of deferred issuance costs. On the closing date, the CLO issued $1.1 billion principal amount of notes, of which $936.4 million was purchased by third party investors. We retained $86.6 million of notes, along with preferred shares with a liquidation preference of $77.0 million. The CLO contains a reinvestment feature that, subject to certain eligibility criteria, allows us to contribute new loans or participation interests in loans to the CLO in exchange for cash.

- Originated or acquired $5.5 billion of commercial loans during the year, including the following:

    - $525.0 million first mortgage and mezzanine loan to one of the largest real estate managers in the world for the renovation of a 1.8 million square foot mixed-use property located in California, of which the Company funded $240.0 million.

    - $379.0 million first mortgage and mezzanine loan for the acquisition and redevelopment of two office buildings located in New York, of which the Company funded $251.3 million.

    - $324.3 million first mortgage and mezzanine loan to refinance the existing debt on two connected 12-story office buildings located in Washington, D.C., of which the Company funded $237.7 million.

    - £249.9 million ($319.7 million) first mortgage loan to the owner of the United Kingdom's market leading convention and exhibition center business. The loan is secured by five large conference facilities totaling over two million square feet and was fully funded.

    - $300.0 million first mortgage loan for the construction of the final phase of a 3.4 million square foot mixed use, waterfront property located in Washington, D.C., of which the Company funded $5.3 million.

  - $287.4 million first mortgage, mezzanine loan and preferred equity investment to finance the construction of a mixed-used development located in Pennsylvania, of which the Company funded $17.3 million.

  - $257.5 million first mortgage loan for the construction of an 800,000 square foot office campus on 18.1 acres located in California that is pre-leased to an investment grade tenant, of which the Company funded $135.9 million.

  - £203.1 million ($249.6 million) first mortgage loan for the construction of 79 residential units and a 50-key five star hotel located in London, England, of which the Company funded $105.6 million.

- Funded $1.0 billion of previously originated commercial loan commitments.

- Received gross proceeds of $3.1 billion (net proceeds of $1.7 billion) from sales, maturities and principal repayments on our commercial loans, single-borrower CMBS and preferred equity interests, of which $748.9 million related to sales.

- Acquired $2.1 billion of residential mortgage loans.

- Received proceeds of $1.3 billion, including retained RMBS of $120.1 million, from the securitization of $1.3 billion of residential mortgage loans.

Infrastructure Lending Segment

- Originated or acquired $1.0 billion of infrastructure loans and bonds, of which $15.0 million relates to revolvers, and funded $145.2 million of pre-existing infrastructure loan commitments.

- Received proceeds of $393.3 million from sales of infrastructure loans and $947.7 million from maturities and principal repayments on our infrastructure loans and bonds.

Property Segment

- Sold the Ireland Portfolio as discussed above under “Developments During the Fourth Quarter of 2019”

- Recognized a $116.8 million reduction to our investment in the Retail Fund resulting from unrealized decreases in the fair value of the underlying assets. See related discussion above under “Developments During the Fourth Quarter of 2019”.

Investing and Servicing Segment

- Entered into the CMBS JV as discussed above under “Developments During the Fourth Quarter of 2019”

- Acquired CMBS for a purchase price of $221.6 million, net of non-controlling interests, and sold CMBS held for total gross proceeds of $123.6 million.

- Sold commercial real estate for gross proceeds of $145.9 million and recognized net gains of $54.4 million.

- Acquired commercial real estate from a CMBS trust for a gross purchase price of $8.8 million.

- Originated commercial conduit loans of $1.9 billion. Separately, received proceeds of $1.8 billion from sales of previously originated commercial conduit loans.

- Obtained 22 new special servicing assignments for CMBS trusts with a total unpaid principal balance of $16.3 billion.

Corporate Financing

- Settled the remaining $78.0 million of our 4.00% Convertible Senior Notes due 2019 (the "2019 Notes") through the issuance of 3.6 million shares of common stock and cash payments of $12.0 million.

- Entered into the following credit agreements: (i) a $400.0 million term loan facility that carries a seven-year term and an annual interest rate of LIBOR + 2.50%; and (ii) a $100.0 million revolving credit facility that carries a five-year term and an annual interest rate of LIBOR + 3.00%. A portion of the net proceeds from the term loan was used to repay the amount outstanding under our previous term loan.

Subsequent Events

Refer to Note 25 to the Consolidated Financial Statements for disclosure regarding significant transactions that occurred subsequent to December 31, 2019.

Results of Operations

The discussion below is based on GAAP and therefore reflects the elimination of certain key financial statement line items related to the consolidation of securitization VIEs, particularly within revenues and other income, as discussed in Note 2 to the Consolidated Financial Statements. For a discussion of our results of operations excluding the impact of ASC 810 as it relates to the consolidation of securitization VIEs, refer to the section captioned "Non-GAAP Financial Measures".

The following table compares our summarized results of operations for the years ended December 31, 2019, 2018 and 2017 by business segment (amounts in thousands):

	For the Year Ended December 31,			$ Change	$ Change
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
Revenues:					
Commercial and Residential Lending Segment	$ 693,032	$ 627,950	$ 547,913	$ 65,082	$ 80,037
Infrastructure Lending Segment	106,649	30,709	—	75,940	30,709
Property Segment	287,503	292,897	199,111	(5,394)	93,786
Investing and Servicing Segment	253,931	304,480	312,237	(50,549)	(7,757)
Corporate	26	360	—	(334)	360
Securitization VIE eliminations	(144,722)	(147,116)	(179,373)	2,394	32,257
	1,196,419	**1,109,280**	**879,888**	**87,139**	**229,392**
Costs and expenses:					
Commercial and Residential Lending Segment	261,150	226,625	127,078	34,525	99,547
Infrastructure Lending Segment	85,764	33,386	—	52,378	33,386
Property Segment	272,911	292,548	197,517	(19,637)	95,031
Investing and Servicing Segment	165,094	161,623	157,606	3,471	4,017
Corporate	245,049	263,685	253,499	(18,636)	10,186
Securitization VIE eliminations	(144)	(235)	(451)	91	216
	1,029,824	**977,632**	**735,249**	**52,192**	**242,383**
Other income (loss):					
Commercial and Residential Lending Segment	20,806	8,617	4,085	12,189	4,532
Infrastructure Lending Segment	(11,510)	396	—	(11,906)	396
Property Segment	(708)	52,727	(59,920)	(53,435)	112,647
Investing and Servicing Segment	205,420	94,614	175,968	110,806	(81,354)
Corporate	24,523	(9,429)	(6,610)	33,952	(2,819)
Securitization VIE eliminations	145,041	147,954	186,127	(2,913)	(38,173)
	383,572	**294,879**	**299,650**	**88,693**	**(4,771)**
Income (loss) before income taxes:					
Commercial and Residential Lending Segment	452,688	409,942	424,920	42,746	(14,978)
Infrastructure Lending Segment	9,375	(2,281)	—	11,656	(2,281)
Property Segment	13,884	53,076	(58,326)	(39,192)	111,402
Investing and Servicing Segment	294,257	237,471	330,599	56,786	(93,128)
Corporate	(220,500)	(272,754)	(260,109)	52,254	(12,645)
Securitization VIE eliminations	463	1,073	7,205	(610)	(6,132)
	550,167	**426,527**	**444,289**	**123,640**	**(17,762)**
Income tax provision	(13,232)	(15,330)	(31,522)	2,098	16,192
Net income attributable to non-controlling interests	(27,271)	(25,367)	(11,997)	(1,904)	(13,370)
Net income attributable to Starwood Property Trust, Inc.	**$ 509,664**	**$ 385,830**	**$ 400,770**	**$ 123,834**	**$ (14,940)**

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Commercial and Residential Lending Segment

Revenues

For the year ended December 31, 2019, revenues of our Commercial and Residential Lending Segment increased $65.1 million to $693.0 million, compared to $627.9 million for the year ended December 31, 2018. This increase was primarily due to increases in interest income from loans of $33.8 million and investment securities of $31.2 million. The increased interest income from loans was principally due to (i) higher average LIBOR rates, (ii) higher average balances of both commercial and residential loans and (iii) higher levels of prepayment related income, partially offset by (iv) the compression of interest rate spreads in credit markets and (v) the recognition in the 2018 period of a $15.1 million profit participation in a mortgage loan that was repaid in 2016. The increase in interest income from investment securities was primarily due to higher average investment balances.

Costs and Expenses

For the year ended December 31, 2019, costs and expenses of our Commercial and Residential Lending Segment increased $34.5 million to $261.1 million, compared to $226.6 million for the year ended December 31, 2018. This increase was primarily due to a $61.3 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio, partially offset by a $32.2 million decrease in loan loss provision relating to impairment charges on certain commercial loans in the 2018 second quarter.

Net Interest Income (amounts in thousands)

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018	Change
Interest income from loans	$ 610,316	$ 576,564	$ 33,752
Interest income from investment securities	81,255	50,063	31,192
Interest expense	(222,118)	(160,769)	(61,349)
Net interest income	**$ 469,453**	**$ 465,858**	**$ 3,595**

For the year ended December 31, 2019, net interest income of our Commercial and Residential Lending Segment increased $3.6 million to $469.5 million, compared to $465.9 million for the year ended December 31, 2018. This increase reflects the net increase in interest income explained in the *Revenues* discussion above, which was partially offset by the increase in interest expense on our secured financing facilities.

During the years ended December 31, 2019 and 2018, the weighted average unlevered yields on the Commercial and Residential Lending Segment's loans and investment securities were as follows:

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018
Commercial	7.3 %	7.8 %
Residential	6.9 %	7.0 %
Overall	**7.3 %**	**7.7 %**

The overall weighted average unlevered yield was lower as the compression of interest rate spreads in credit markets and the recognition in the 2018 period of the $15.1 million loan profit participation more than offset the effects of higher average LIBOR rates and higher levels of prepayment related income.

During both the years ended December 31, 2019 and 2018, the Commercial and Residential Lending Segment's weighted average secured borrowing rates, inclusive of interest rate hedging costs and the amortization of deferred financing fees, was 4.3%.

Other Income

For the year ended December 31, 2019, other income of our Commercial and Residential Lending Segment increased $12.2 million to $20.8 million, compared to $8.6 million for the year ended December 31, 2018. The increase was primarily due to (i) a $19.0 million favorable change in fair value of residential mortgage loans and investment securities, (ii) a $25.2 million favorable change in foreign currency gain (loss) and (iii) a $5.6 million increase in earnings from unconsolidated entities, all partially offset by (iv) a $38.0 million unfavorable change in gain (loss) on derivatives. The unfavorable change in derivatives reflects a $22.7 million unfavorable change in foreign currency hedges and a $15.3 million unfavorable change in interest rate swaps. The foreign currency hedges are used to fix the U.S. dollar amounts of cash flows (both interest and principal payments) we expect to receive from our foreign currency denominated loans and investments. The interest rate swaps are used primarily to fix our interest rate payments on certain variable rate borrowings which fund fixed rate investments. The unfavorable change in foreign currency hedges and the favorable change in foreign currency gain (loss) reflect an overall weakening of the U.S. dollar against the pound sterling ("GBP") in the year ended December 31, 2019 versus a strengthening of the U.S. dollar in the year ended December 31, 2018.

Infrastructure Lending Segment

The Infrastructure Lending Segment was acquired on September 19, 2018. Therefore, its results for the year ended December 31, 2018 reflect only the period from the acquisition date through December 31, 2018. Accordingly, the following discussion attempts no comparison to the prior year results.

Revenues

For the years ended December 31, 2019 and 2018, revenues of our Infrastructure Lending Segment were $106.6 million and $30.7 million, respectively, which includes interest income of $99.6 million and $29.0 million, respectively, from loans and $6.3 million and $1.1 million, respectively, from investment securities.

*Costs and Expense*s

For the years ended December 31, 2019 and 2018, costs and expenses of our Infrastructure Lending Segment were $85.8 million and $33.4 million, respectively, which includes $62.8 million and $20.9 million, respectively, of interest expense on secured debt facilities used to finance this segment's investment portfolio and $18.3 million and $5.6 million, respectively, of general and administrative expenses. Also included in the year ended December 31, 2018 were $6.8 million of acquisition costs.

Net Interest Income (amounts in thousands)

	For the Year Ended December 31, 2019	2018	Change
Interest income from loans	$ 99,580	$ 28,995	$ 70,585
Interest income from investment securities	6,318	1,095	5,223
Interest expense	(62,836)	(20,949)	(41,887)
Net interest income	**$ 43,062**	**$ 9,141**	**$ 33,921**

Interest income from infrastructure loans and investment securities and interest expense on the secured financing facilities reflect primarily variable LIBOR based rates.

During the years ended December 31, 2019 and 2018, the weighted average unlevered yields on the Infrastructure Lending Segment's investments were as follows:

	For the Year Ended December 31, 2019	2018
Loans and investment securities held-for-investment	6.4 %	5.9 %
Loans held-for-sale	5.1 %	3.6 %

During both the years ended December 31, 2019 and 2018, the Infrastructure Lending Segment's weighted average secured borrowing rate, inclusive of the amortization of deferred financing fees, was 4.7%.

Other Income (Loss)

Other income (loss) of our Infrastructure Lending Segment was a loss of $11.5 million and income of $0.4 million for the years ended December 31, 2019 and 2018, respectively. Other loss for the year ended December 31, 2019 primarily reflects an $11.4 million loss on extinguishment of debt resulting from the write-off of deferred financing fees relating to partial debt prepayments from proceeds of loan repayments and sales. Other income for the year ended December 31, 2018 consisted of a $1.8 million gain on foreign currency hedges, partially offset by $1.4 million in foreign currency losses on principally GBP and Euro-denominated loans.

<u>*Property Segment*</u>

Change in Results by Portfolio (amounts in thousands)

	$ Change from prior year				
	Revenues	**Costs and expenses**	**Gain (loss) on derivative financial instruments**	**Other income (loss)**	**Income (loss) before income taxes**
Master Lease Portfolio	$ (19,309)	$ (14,156)	$ —	$ (27,697)	$ (32,850)
Medical Office Portfolio	(1,964)	(2,598)	(24,215)	(5,235)	(28,816)
Ireland Portfolio	(1,935)	(1,910)	(2,422)	121,580	119,133
Woodstar I Portfolio	4,265	2,004	—	—	2,261
Woodstar II Portfolio	13,549	(2,516)	—	(18)	16,047
Investment in unconsolidated entities	—	72	—	(118,020)	(118,092)
Other/Corporate	—	(533)	2,597	(5)	3,125
Total	**$ (5,394)**	**$ (19,637)**	**$ (24,040)**	**$ (29,395)**	**$ (39,192)**

See Note 7 to the Consolidated Financial Statements for a description of the above-referenced Property Segment portfolios.

Revenues

For the year ended December 31, 2019, revenues of our Property Segment decreased $5.4 million to $287.5 million, compared to $292.9 million for the year ended December 31, 2018. The decrease in revenues was primarily due to a decrease in rental income from the Master Lease Portfolio due to (i) the sale of seven properties within the Master Lease portfolio during 2018 and (ii) no longer recording as revenues and offsetting expenses property taxes paid directly by lessees, in accordance with the new lease accounting standard effective January 1, 2019 (see Note 2 to the Consolidated Financial Statements) in both the Master Lease and Medical Office Portfolios, partially offset by (iii) the full period inclusion of rental income from the Woodstar II Portfolio, which was acquired over a period between December 2017 and September 2018, and (iv) rental rate increases in both Woodstar Portfolios.

Costs and Expenses

For the year ended December 31, 2019, costs and expenses of our Property Segment decreased $19.6 million to $272.9 million, compared to $292.5 million for the year ended December 31, 2018. The decrease in costs and expenses primarily reflects (i) the sale of seven properties within the Master Lease portfolio during 2018, (ii) no longer recording as revenues and offsetting expenses property taxes paid directly by lessees, as discussed above, and (iii) decreased expenses in the Woodstar II Portfolio primarily due to in-place lease intangibles becoming fully amortized, partially offset by (iv) the full period inclusion of the properties acquired in the Woodstar II Portfolio since January 2018.

Other Income (Loss)

For the year ended December 31, 2019, other income (loss) of our Property Segment decreased $53.4 million to a loss of $0.7 million, compared to income of $52.7 million for the year ended December 31, 2018. The decrease in other income was primarily due to (i) a $118.0 million unfavorable change in earnings (loss) from an unconsolidated entity and (ii) a $24.0 million unfavorable change in gain (loss) on derivatives, both partially offset by (iii) a $91.2

million increase in gain on sale of properties. The $118.0 million unfavorable change in earnings (loss) from an unconsolidated entity principally reflects the recognition of decreases in fair value of properties held by the Retail Fund, including an impairment we recorded for our remaining investment as of December 31, 2019 (see Note 8 to the Consolidated Financial Statements). The $24.0 million unfavorable change in gain (loss) on derivatives consists of (i) a $21.5 million unfavorable change in interest rate swaps which primarily hedge the variable interest rate risk on borrowings secured by our Medical Office Portfolio and (ii) a $2.5 million unfavorable change in foreign exchange contracts which economically hedged our Euro currency exposure with respect to the Ireland Portfolio. The $91.2 million increased gain on sale of properties is due to a $119.7 million gain on sale of the Ireland Portfolio in December 2019 compared to gains of $28.5 million on the sales of seven properties in the Master Lease Portfolio during the year ended December 31, 2018. Refer to Note 3 to the Consolidated Financial Statements for further detail.

Investing and Servicing Segment

Revenues

For the year ended December 31, 2019, revenues of our Investing and Servicing Segment decreased $50.6 million to $253.9 million, compared to $304.5 million for the year ended December 31, 2018. The decrease in revenues in the year ended December 31, 2019 was primarily due to decreases of (i) $33.9 million in servicing fees, (ii) $9.4 million in CMBS interest income principally due to lower interest recoveries and (iii) $6.4 million in rental income from our REIS Equity Portfolio due to fewer properties held.

Costs and Expenses

For the year ended December 31, 2019, costs and expenses of our Investing and Servicing Segment increased $3.5 million to $165.1 million, compared to $161.6 million for the year ended December 31, 2018. The increase in costs and expenses was primarily due to a $6.2 million increase in interest expense principally related to the financing of our CMBS portfolio, partially offset by decreases of $4.8 million related to our REIS Equity Portfolio due to fewer properties held.

Other Income

For the year ended December 31, 2019, other income of our Investing and Servicing Segment increased $110.8 million to $205.4 million, from $94.6 million for the year ended December 31, 2018. The increase in other income was primarily due to (i) a $56.0 million greater increase in the fair value of CMBS investments, (ii) a $34.1 million increase in gains on sales of operating properties, (iii) a $13.8 million greater increase in the fair value of our conduit loans and (iv) a $12.9 million lesser decrease in fair value of servicing rights primarily reflecting the expected reduction in amortization of this deteriorating asset net of increases in fair value due to the attainment of new servicing contracts, all partially offset by (v) a $7.1 million increased loss on derivatives which primarily hedge our interest rate risk on conduit loans.

Corporate and Other Items

Corporate Costs and Expenses

For the year ended December 31, 2019, corporate expenses decreased $18.6 million to $245.1 million, compared to $263.7 million for the year ended December 31, 2018. The decrease was primarily due to a $10.8 million decrease in interest expense principally on lower average outstanding balances of our unsecured senior notes and a $9.7 million decrease in management fees.

Corporate Other Income (Loss)

For the year ended December 31, 2019, corporate other income (loss) improved $33.9 million to income of $24.5 million, compared to a loss of $9.4 million for the year ended December 31, 2018. The increase in corporate other income was primarily due to a $33.4 million favorable change in gain (loss) on interest rate swaps used to hedge a portion of our unsecured senior notes used to repay variable rate secured financing.

Securitization VIE Eliminations

Securitization VIE eliminations primarily reclassify interest income and servicing fee revenues to other income for the CMBS and RMBS VIEs that we consolidate as primary beneficiary. Such eliminations have no overall effect on net income attributable to Starwood Property Trust. The reclassified revenues, along with applicable changes in fair value of investment securities and servicing rights, comprise the other income caption "Change in net assets related to consolidated VIEs," which represents our beneficial interest in those consolidated VIEs. The magnitude of the securitization VIE eliminations is merely a function of the number of CMBS and RMBS trusts consolidated in any given period, and as such, is not a meaningful indicator of operating results. The eliminations primarily relate to CMBS trusts for which the Investing and Servicing Segment is deemed the primary beneficiary and, to a much lesser extent, some CMBS and RMBS trusts for which the Commercial and Residential Lending Segment is deemed the primary beneficiary.

Income Tax Provision

Our consolidated income tax provision principally relates to the taxable nature of our loan servicing and loan conduit businesses and certain other real estate related investing activities which are housed in taxable REIT subsidiaries ("TRSs"). For the year ended December 31, 2019, our income tax provision decreased $2.1 million to $13.2 million, compared to $15.3 million for the year ended December 31, 2018. The decrease primarily reflects a decrease in the taxable income of our TRSs.

Net Income Attributable to Non-controlling Interests

For the year ended December 31, 2019, net income attributable to non-controlling interests increased $1.9 million to $27.3 million, compared to $25.4 million for the year ended December 31, 2018. The increase was primarily due to increased non-controlling interests in our Woodstar II Portfolio, which consists of properties acquired in and after December 2017.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

<u>Commercial and Residential Lending Segment</u>

Revenues

For the year ended December 31, 2018, revenues of our Commercial and Residential Lending Segment increased $80.0 million to $627.9 million, compared to $547.9 million for the year ended December 31, 2017. This increase was primarily due to a $76.8 million increase in interest income from loans and a $3.3 million increase in interest income from investment securities. The increased interest income from loans was principally due to (i) increased LIBOR rates, partially offset by the compression of interest rate spreads in credit markets, (ii) higher average balances of both commercial loans and residential loans held-for-sale and (iii) income of $15.1 million received in 2018 from a profit participation in a mortgage loan that was repaid in 2016 (see Note 5 to the Consolidated Financial Statements), partially offset by (iv) lower levels of prepayment related income.

Costs and Expenses

For the year ended December 31, 2018, costs and expenses of our Commercial and Residential Lending Segment increased $99.5 million to $226.6 million, compared to $127.1 million for the year ended December 31, 2017. This increase was primarily due to (i) a $53.6 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio, (ii) a $40.3 million net increase in our loan loss allowance principally relating to impairment charges on certain commercial loans (see Note 5 to the Consolidated Financial Statements for details regarding these individual loan impairments) and (iii) a $6.3 million increase in general and administrative expenses.

Net Interest Income (amounts in thousands)

	For the Year Ended December 31, 2018	2017	Change
Interest income from loans	$ 576,564	$ 499,806	$ 76,758
Interest income from investment securities	50,063	46,710	3,353
Interest expense	(160,769)	(107,167)	(53,602)
Net interest income	**$ 465,858**	**$ 439,349**	**$ 26,509**

For the year ended December 31, 2018, net interest income of our Commercial and Residential Lending Segment increased $26.5 million to $465.9 million, compared to $439.3 million for the year ended December 31, 2017. This increase reflects the increase in interest income explained in the *Revenues* discussion above, partially offset by the increase in interest expense on our secured financing facilities.

During the years ended December 31, 2018 and 2017, the weighted average unlevered yields on the Commercial and Residential Lending Segment's loans and investment securities were as follows:

	For the Year Ended December 31, 2018	2017
Commercial	7.8 %	7.6 %
Residential	7.0 %	7.4 %
Overall	**7.7 %**	**7.5 %**

The increase in the overall weighted average unlevered yield is primarily due to increases in LIBOR and the $15.1 million loan profit participation income received in 2018, partially offset by the compression of interest rate spreads in credit markets and lower levels of prepayment related income.

During the years ended December 31, 2018 and 2017, the Commercial and Residential Lending Segment's weighted average secured borrowing rates, inclusive of interest rate hedging costs and the amortization of deferred financing fees, were 4.3% and 3.8%, respectively. The increase in borrowing rates primarily reflect increases in LIBOR, partially offset by the compression of interest rate spreads in credit markets.

Other Income

For the year ended December 31, 2018, other income of our Commercial and Residential Lending Segment increased $4.5 million to $8.6 million, compared to $4.1 million for the year ended December 31, 2017. The increase was primarily due to a $52.9 million favorable change in gain (loss) on derivatives, partially offset by a $41.5 million unfavorable change in foreign currency gain (loss). The favorable change from derivatives reflects favorable changes of $52.2 million on foreign currency hedges and $0.7 million on interest rate swaps. The foreign currency hedges are used to fix the U.S. dollar amounts of cash flows (both interest and principal payments) we expect to receive from our foreign currency denominated loans and CMBS investments. The favorable change on the foreign currency hedges and the unfavorable change in foreign currency gain (loss) reflect an overall strengthening of the U.S. dollar against the GBP in the year ended December 31, 2018 versus a weakening of the U.S. dollar in the year ended December 31, 2017. The interest rate swaps are used primarily to fix our interest rate payments on certain variable rate borrowings, which fund fixed rate investments.

Infrastructure Lending Segment

The Infrastructure Lending Segment was initially acquired on September 19, 2018 (see Note 3 to the Consolidated Financial Statements). Accordingly, the following discussion reflects its results for the period from the acquisition date through December 31, 2018 and includes no comparison to the year ended December 31, 2017.

Revenues

Revenues of our Infrastructure Lending Segment were $30.7 million, including interest income of $29.0 million from loans and $1.1 million from investment securities.

Costs and Expenses

Costs and expenses of our Infrastructure Lending Segment were $33.4 million, consisting of $20.9 million of interest expense on the debt facility used to finance a portion of the acquisition price and subsequent loan fundings, $6.8 million of acquisition costs, and $5.6 million of general and administrative expenses. Acquisition costs include a $3.0 million commitment fee related to an unused bridge financing facility and legal and due diligence costs of $3.8 million

Net Interest Income (amounts in thousands)

	For the Year Ended December 31, 2018
Interest income from loans	$ 28,995
Interest income from investment securities	1,095
Interest expense	(20,949)
Net interest income	**$ 9,141**

Interest income from infrastructure loans and investment securities and interest expense on the term loan reflect primarily variable LIBOR based rates. During the period from the acquisition date through December 31, 2018, the weighted average unlevered yield on the Infrastructure Lending Segment's loans and investment securities held-for-investment was 5.9% while the weighted average unlevered yield on its loans held-for-sale was 3.6%. The weighted average secured borrowing rate on its debt facility, including amortization of deferred financing fees, was 4.7%.

Other Income

Other income of our Infrastructure Lending Segment was $0.4 million, consisting of a $1.8 million gain on foreign currency hedges, partially offset by $1.4 million in foreign currency losses on principally GBP and Euro-denominated loans.

Property Segment

Change in Results by Portfolio (amounts in thousands)

	$ Change from prior year				
	Revenues	Costs and expenses	Gain (loss) on derivative financial instruments	Other income (loss)	Income (loss) before income taxes
Master Lease Portfolio	$ 32,702	$ 22,509	$ 2,354	$ 27,597	$ 40,144
Medical Office Portfolio	(951)	2,008	5,450	490	2,981
Ireland Portfolio	4,495	1,524	47,285	(1,884)	48,372
Woodstar I Portfolio	2,241	(116)	—	—	2,357
Woodstar II Portfolio	55,299	66,785	—	12	(11,474)
Investment in unconsolidated entities	—	(4)	—	31,343	31,347
Other/Corporate	—	2,325	—	—	(2,325)
Total	**$ 93,786**	**$ 95,031**	**$ 55,089**	**$ 57,558**	**$ 111,402**

Revenues

For the year ended December 31, 2018, revenues of our Property Segment increased $93.8 million to $292.9 million, compared to $199.1 million for the year ended December 31, 2017. The increase in revenues in the year ended December 31, 2018 was primarily due to the fuller inclusion of rental income from the Master Lease Portfolio, which was acquired in September 2017, and the Woodstar II Portfolio, which was acquired over a period between December 2017 and September 2018.

Costs and Expenses

For the year ended December 31, 2018, costs and expenses of our Property Segment increased $95.0 million to $292.5 million, compared to $197.5 million for the year ended December 31, 2017. The increase in costs and expenses reflects increases of $37.1 million in depreciation and amortization, $27.4 million in other rental related costs and $28.6 million in interest expense, all primarily due to the fuller inclusion of the Master Lease Portfolio and Woodstar II Portfolio, both of which were acquired after August 2017.

Other Income (Loss)

For the year ended December 31, 2018, other income of our Property Segment increased $112.6 million to $52.7 million, compared to a loss of $59.9 million for the year ended December 31, 2017. The increase in other income was primarily due to (i) a $55.1 million favorable change in gain (loss) on derivatives, (ii) a $31.3 million favorable change in earnings (loss) from unconsolidated entities and (iii) $28.5 million of gains on sales of seven properties from the Master Lease Portfolio. The $55.1 million favorable change in gain (loss) on derivatives reflects a $47.1 million favorable change on foreign exchange contracts which economically hedge our Euro currency exposure with respect to the Ireland Portfolio and an $8.0 million favorable change on interest rate swaps which primarily hedge the variable interest rate risk on borrowings secured by our Medical Office Portfolio. The $31.3 million favorable change in earnings (loss) from unconsolidated entities principally reflects the recognition in 2017 of $34.7 million of unfavorable changes in fair value of our equity investment in the Retail Fund, which is an investment company that measures its assets at fair value.

Investing and Servicing Segment

Revenues

For the year ended December 31, 2018, revenues of our Investing and Servicing Segment decreased $7.7 million to $304.5 million, compared to $312.2 million for the year ended December 31, 2017. The decrease in revenues in the year ended December 31, 2018 was primarily due to decreases of $7.6 million in CMBS interest income and $7.3 million in servicing fees, partially offset by a $6.7 million increase in rental income on our REIS Equity Portfolio.

Costs and Expenses

For the year ended December 31, 2018, costs and expenses of our Investing and Servicing Segment increased $4.0 million to $161.6 million, compared to $157.6 million for the year ended December 31, 2017. The increase in costs and expenses was primarily due to increases of $7.6 million in interest expense and $5.4 million in costs of rental operations associated with our REIS Equity Portfolio, partially offset by a $9.6 million decrease in general and administrative expenses primarily reflecting lower profit-based compensation, headcount and corporate expense allocations.

Other Income

For the year ended December 31, 2018, other income of our Investing and Servicing Segment decreased $81.4 million to $94.6 million, from $176.0 million for the year ended December 31, 2017. The decrease in other income was primarily due to (i) a $64.4 million decrease in earnings from unconsolidated entities, (ii) a $21.1 million lesser increase in the fair value of CMBS investments and (iii) a $17.3 million lesser increase in the fair value of our conduit loans held-for-sale, partially offset by (iv) a $15.9 million lesser decrease in fair value of servicing rights primarily reflecting the expected reduction in amortization of this deteriorating asset net of increases in fair value due to the attainment of new servicing contracts and (v) a $6.1 million increase in gains on sales of operating properties. The decrease in earnings from unconsolidated entities primarily reflects $53.9 million of non-recurring income during the year ended December 31, 2017 related to an unconsolidated investor entity which owns equity in an online real estate company.

<u>*Corporate and Other Items*</u>

Corporate Costs and Expenses

For the year ended December 31, 2018, corporate expenses increased $10.2 million to $263.7 million, compared to $253.5 million for the year ended December 31, 2017. The increase was primarily due to (i) a $6.7 million increase in management fees, (ii) a $1.8 million increase in general and administrative expenses and (iii) a $1.6 million increase in interest expense principally on our unsecured senior notes.

Corporate Other Loss

For the year ended December 31, 2018, corporate other loss increased $2.8 million to $9.4 million, compared to $6.6 million for the year ended December 31, 2017. The increase in corporate other loss was primarily due to a $4.9 million increased loss on interest rate swaps used to hedge a portion of our unsecured senior notes, which are used to repay variable rate secured financing, partially offset by a $3.8 million decrease in loss on extinguishment of debt.

Securitization VIE Eliminations

Refer to the preceding comparison of the year ended December 31, 2019 to the year ended December 31, 2018 for a discussion of the nature of securitization VIE eliminations.

Income Tax Provision

Our consolidated income tax provision principally relates to the taxable nature of our loan servicing and loan conduit businesses and certain other real estate related investing activities which are housed in TRSs. For the year ended December 31, 2018, our income tax provision decreased $16.2 million to $15.3 million, compared to $31.5 million for the year ended December 31, 2017. The decrease primarily reflects (i) the effect of a lower statutory tax rate in 2018 and (ii) the absence of the additional tax expense in 2017 that resulted from a taxable gain on the disposition of an interest in an investee entity, partially offset by (iii) the remeasurement of our net deferred tax assets upon enactment of the Tax Cuts and Jobs Act in December 2017 and (iv) additional tax expense in 2018 as a result of taxable gains in our TRSs from sales of operating properties that had been held in our Master Lease Portfolio and REIS Equity Portfolio.

Net Income Attributable to Non-controlling Interests

For the year ended December 31, 2018, net income attributable to non-controlling interests increased $13.4 million to $25.4 million, compared to $12.0 million for the year ended December 31, 2017. The increase was primarily due to the effect of non-controlling interests in our Woodstar II Portfolio, which consists of properties acquired in and after December 2017, partially offset by the effect of non-controlling interests in a non-recurring gain of a consolidated VIE during the year ended December 31, 2017.

Non-GAAP Financial Measures

Core Earnings is a non-GAAP financial measure. We calculate Core Earnings as GAAP net income (loss) excluding the following:

(i) non-cash equity compensation expense;

(ii) incentive fees due under our management agreement;

(iii) depreciation and amortization of real estate and associated intangibles;

(iv) acquisition costs associated with successful acquisitions;

(v) any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income; and

(vi) any deductions for distributions payable with respect to equity securities of subsidiaries issued in exchange for properties or interests therein.

We believe that Core Earnings provides an additional measure of our core operating performance by eliminating the impact of certain non-cash expenses and facilitating a comparison of our financial results to those of other comparable REITs with fewer or no non-cash adjustments and comparison of our own operating results from period to period. Our management uses Core Earnings in this way, and also uses Core Earnings to compute the incentive fee due under our management agreement. The Company believes that its investors also use Core Earnings or a comparable supplemental performance measure to evaluate and compare the performance of the Company and its peers, and as such, the Company believes that the disclosure of Core Earnings is useful to (and expected by) its investors.

However, the Company cautions that Core Earnings does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP), or an indication of our cash flows from operating activities (determined in accordance with GAAP), a measure of our liquidity, or an indication of funds available to fund our cash needs, including our ability to make cash distributions. In addition, our methodology for calculating Core Earnings may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and accordingly, our reported Core Earnings may not be comparable to the Core Earnings reported by other REITs.

The weighted average diluted share count applied to Core Earnings for purposes of determining Core Earnings per share ("EPS") is computed using the GAAP diluted share count, adjusted for the following:

(i) Unvested stock awards – Currently, unvested stock awards are excluded from the denominator of GAAP EPS. The related compensation expense is also excluded from Core Earnings. In order to effectuate dilution from these awards in the Core Earnings computation, we adjust the GAAP diluted share count to include these shares.

(ii) Convertible Notes – Conversion of our Convertible Notes is an event that is contingent upon numerous factors, none of which are in our control, and is an event that may or may not occur. Consistent with the treatment of other unrealized adjustments to Core Earnings, we adjust the GAAP diluted share count to exclude the potential shares issuable upon conversion until a conversion occurs.

(iii) Subsidiary equity – The intent of a February 2018 amendment to our management agreement (the "Amendment") is to treat subsidiary equity in the same manner as if parent equity had been issued. The Class A Units issued in connection with the acquisition of assets in our Woodstar II Portfolio are currently excluded from our GAAP diluted share count, with the subsidiary equity represented as non-controlling interests in consolidated subsidiaries on our GAAP balance sheet. Consistent with the amendment, we adjust GAAP diluted share count to include these subsidiary units.

The following table presents our diluted weighted average shares used in our GAAP EPS calculation reconciled to our diluted weighted average shares used in our Core EPS calculation (amounts in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
Diluted weighted average shares - GAAP	289,712	288,484	262,079
Add: Unvested stock awards	2,271	2,285	1,659
Add: Woodstar II Class A Units	11,365	8,971	—
Less: Convertible Notes dilution	(9,805)	(22,659)	(1,899)
Diluted weighted average shares - Core	293,543	277,081	261,839

The definition of Core Earnings allows management to make adjustments, subject to the approval of a majority of our independent directors, in situations where such adjustments are considered appropriate in order for Core Earnings to be calculated in a manner consistent with its definition and objective. No adjustments to the definition of Core Earnings became effective during the year ended December 31, 2019.

As a reminder, in 2015, we adjusted the calculation of Core Earnings related to the equity component of our Convertible Notes. We previously amortized the equity component of these instruments through interest expense for Core Earnings purposes, consistent with our GAAP treatment. However, for Core Earnings purposes, the amount is not considered realized until the earlier of (a) the entire issuance of the notes has been extinguished; or (b) the equity portion has been fully amortized via repurchases of the notes

In January 2019, our 2019 Notes were fully repaid in shares of common stock and cash. The equity portion of the 2019 Notes had been fully amortized. In March 2018, our 4.55% Convertible Senior Notes due 2018 (the "2018 Notes") matured and were fully repaid in cash. The equity portion of the 2018 Notes had not been fully amortized. As a result, we reflected $10.0 million as a positive adjustment to Core Earnings, representing the $28.1 million equity balance recognized upon issuance of the 2018 Notes, net of $18.1 million in adjustments related to cumulative repurchases through the maturity date.

The following table summarizes our quarterly Core Earnings per weighted average diluted share for the years ended December 31, 2019, 2018 and 2017:

	Core Earnings For the Three-Month Periods Ended			
	March 31	June 30	September 30	December 31
2019	$ 0.28	$ 0.52	$ 0.52	$ 0.47
2018	0.58	0.54	0.53	0.54
2017	0.51	0.52	0.65	0.55

Core Earnings per weighted average diluted share for the year ended December 31, 2019 does not equal the sum of the individual quarters due to rounding and other computational factors.

The following table presents our summarized results of operations and reconciliation to Core Earnings for the year ended December 31, 2019, by business segment (amounts in thousands):

	Commercial and Residential Lending Segment	Infrastructure Lending Segment	Property Segment	Investing and Servicing Segment	Corporate	Total
Revenues	$ 693,032	$ 106,649	$ 287,503	$ 253,931	$ 26	$ 1,341,141
Costs and expenses	(261,150)	(85,764)	(272,911)	(165,094)	(245,049)	(1,029,968)
Other income (loss)	20,806	(11,510)	(708)	205,420	24,523	238,531
Income (loss) before income taxes	452,688	9,375	13,884	294,257	(220,500)	549,704
Income tax (provision) benefit	(4,818)	89	(393)	(8,110)	—	(13,232)
Income attributable to non-controlling interests	(392)	—	(21,630)	(4,786)	—	(26,808)
Net income (loss) attributable to Starwood Property Trust, Inc.	**447,478**	**9,464**	**(8,139)**	**281,361**	**(220,500)**	**509,664**
Add / (Deduct):						
Non-controlling interests attributable to Woodstar II Class A Units	—	—	21,630	—	—	21,630
Non-cash equity compensation expense	3,918	2,683	312	6,582	22,697	36,192
Management incentive fee	—	—	—	—	20,165	20,165
Acquisition and investment pursuit costs	(882)	2	(355)	(780)	(356)	(2,371)
Depreciation and amortization	1,091	83	93,864	18,156	—	113,194
Loan loss provision, net	2,616	4,510	—	—	—	7,126
Interest income adjustment for securities	(617)	—	—	15,933	—	15,316
Extinguishment of debt, net	—	—	—	—	(1,950)	(1,950)
Other non-cash items	—	—	(1,798)	(1,067)	623	(2,242)
Reversal of GAAP unrealized (gains) / losses on:						
Loans held-for-sale	(10,462)	—	—	(61,139)	—	(71,601)
Securities	1,084	—	—	(89,206)	—	(88,122)
Derivatives	20,680	3,353	6,268	7,536	(26,396)	11,441
Foreign currency	(17,342)	(205)	(37)	2	—	(17,582)
(Earnings) loss from unconsolidated entities	(10,649)	—	114,362	(4,166)	—	99,547
Recognition of Core realized gains / (losses) on:						
Loans held-for-sale	9,028	(984)	—	63,908	—	71,952
Securities	970	—	—	14,608	—	15,578
Derivatives	(5,500)	(1,186)	17,238	(10,153)	—	399
Foreign currency	622	(1,081)	37	7	—	(415)
Earnings (loss) from unconsolidated entities	8,851	—	(139,462)	15,812	—	(114,799)
Sales of properties	—	—	(74,878)	(19,359)	—	(94,237)
Core Earnings (Loss)	**$ 450,886**	**$ 16,639**	**$ 29,042**	**$ 238,035**	**$ (205,717)**	**$ 528,885**
Core Earnings (Loss) per Weighted Average Diluted Share	**$ 1.54**	**$ 0.05**	**$ 0.10**	**$ 0.81**	**$ (0.70)**	**$ 1.80**

The following table presents our summarized results of operations and reconciliation to Core Earnings for the year ended December 31, 2018, by business segment (amounts in thousands):

	Commercial and Residential Lending Segment	Infrastructure Lending Segment	Property Segment	Investing and Servicing Segment	Corporate	Total
Revenues	$ 627,950	$ 30,709	$ 292,897	$ 304,480	$ 360	$ 1,256,396
Costs and expenses	(226,625)	(33,386)	(292,548)	(161,623)	(263,685)	(977,867)
Other income (loss)	8,617	396	52,727	94,614	(9,429)	146,925
Income (loss) before income taxes	409,942	(2,281)	53,076	237,471	(272,754)	425,454
Income tax provision	(2,801)	(292)	(7,549)	(4,688)	—	(15,330)
Income attributable to non-controlling interests	(1,451)	—	(17,623)	(5,220)	—	(24,294)
Net income (loss) attributable to Starwood Property Trust, Inc.	**405,690**	**(2,573)**	**27,904**	**227,563**	**(272,754)**	**385,830**
Add / (Deduct):						
Non-controlling interests attributable to Woodstar II Class A Units	—	—	17,623	—	—	17,623
Non-cash equity compensation expense	2,857	477	300	4,934	14,312	22,880
Management incentive fee	—	—	—	—	41,399	41,399
Acquisition and investment pursuit costs	1,391	3,827	(337)	(333)	—	4,548
Depreciation and amortization	76	—	112,007	20,295	—	132,378
Loan loss provision, net	34,821	—	—	—	—	34,821
Interest income adjustment for securities	(736)	—	—	16,754	—	16,018
Extinguishment of debt, net	—	—	—	—	8,199	8,199
Other non-cash items	—	—	(3,031)	2,204	3,057	2,230
Reversal of GAAP unrealized (gains) / losses on:						
Loans held-for-sale	6,851	—	—	(47,373)	—	(40,522)
Securities	(763)	—	—	(33,229)	—	(33,992)
Derivatives	(18,439)	(1,821)	(18,854)	(1,235)	9,521	(30,828)
Foreign currency	7,816	1,425	2	2	—	9,245
Earnings from unconsolidated entities	(5,063)	—	(3,658)	(3,809)	—	(12,530)
Recognition of Core realized gains / (losses) on:						
Loans held-for-sale	(616)	—	—	46,063	—	45,447
Securities	3,528	—	—	6,209	—	9,737
Derivatives	(7,258)	(105)	(4,076)	2,790	—	(8,649)
Foreign currency	9,913	43	(2)	(73)	—	9,881
Earnings from unconsolidated entities	5,178	—	—	4,242	—	9,420
Sales of properties	—	—	(5,379)	(9,667)	—	(15,046)
Core Earnings (Loss)	**$ 445,246**	**$ 1,273**	**$ 122,499**	**$ 235,337**	**$ (196,266)**	**$ 608,089**
Core Earnings (Loss) per Weighted Average Diluted Share	**$ 1.61**	**$ —**	**$ 0.44**	**$ 0.85**	**$ (0.71)**	**$ 2.19**

The following table presents our summarized results of operations and reconciliation to Core Earnings for the year ended December 31, 2017, by business segment (amounts in thousands):

	Commercial and Residential Lending Segment	Property Segment	Investing and Servicing Segment	Corporate	Total
Revenues	$ 547,913	$ 199,111	$ 312,237	$ —	$ 1,059,261
Costs and expenses	(127,078)	(197,517)	(157,606)	(253,499)	(735,700)
Other income (loss)	4,085	(59,920)	175,968	(6,610)	113,523
Income (loss) before income taxes	424,920	(58,326)	330,599	(260,109)	437,084
Income tax provision	(143)	(249)	(31,130)	—	(31,522)
Income attributable to non-controlling interests	(1,419)	—	(3,373)	—	(4,792)
Net income (loss) attributable to Starwood Property Trust, Inc.	**423,358**	**(58,575)**	**296,096**	**(260,109)**	**400,770**
Add / (Deduct):					
Non-cash equity compensation expense	3,016	109	3,406	11,595	18,126
Management incentive fee	—	—	—	42,144	42,144
Acquisition and investment pursuit costs	1,109	(70)	137	—	1,176
Depreciation and amortization	66	74,510	18,245	—	92,821
Loan loss provision, net	(5,458)	—	—	—	(5,458)
Interest income adjustment for securities	(905)	—	13,697	—	12,792
Extinguishment of debt, net	—	—	—	21,129	21,129
Other non-cash items	—	(2,214)	1,672	—	(542)
Reversal of GAAP unrealized (gains) / losses on:					
Loans held-for-sale	(2,324)	—	(64,663)	—	(66,987)
Securities	(66)	—	(54,333)	—	(54,399)
Derivatives	33,506	31,676	461	2,666	68,309
Foreign currency	(33,651)	(14)	(6)	—	(33,671)
Earnings from unconsolidated entities	(3,365)	27,685	(68,192)	—	(43,872)
Purchases and sales of properties	—	—	(613)	—	(613)
Recognition of Core realized gains / (losses) on:					
Loans held-for-sale	(1,092)	—	64,814	—	63,722
Securities	—	—	4,237	—	4,237
Derivatives	16,864	(684)	1,809	(739)	17,250
Foreign currency	(14,420)	14	(1,346)	—	(15,752)
Earnings from unconsolidated entities	3,345	3,563	57,066	—	63,974
Purchases and sales of properties	—	(153)	(840)	—	(993)
Core Earnings (Loss)	**$ 419,983**	**$ 75,847**	**$ 271,647**	**$ (183,314)**	**$ 584,163**
Core Earnings (Loss) per Weighted Average Diluted Share	**$ 1.60**	**$ 0.29**	**$ 1.04**	**$ (0.70)**	**$ 2.23**

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Commercial and Residential Lending Segment

The Commercial and Residential Lending Segment's Core Earnings increased by $5.7 million, from $445.2 million during the year ended December 31, 2018 to $450.9 million during the year ended December 31, 2019. After making adjustments for the calculation of Core Earnings, revenues were $692.4 million, costs and expenses were $254.4 million and other income was $18.1 million.

Core revenues, consisting principally of interest income on loans, increased by $65.2 million during the year ended December 31, 2019, primarily due to increases in interest income from loans of $33.8 million and investment securities of $31.3 million. The increase in interest income from loans was principally due to (i) higher average LIBOR rates, (ii) higher average balances of both commercial and residential loans and (iii) higher levels of prepayment related income, partially offset by (iv) the compression of interest rate spreads in credit markets and (v) the recognition in the 2018 period of a $15.1 million profit participation in a mortgage loan that was repaid in 2016. The increase in interest income from investment securities was primarily due to higher average investment balances.

Core costs and expenses increased by $66.9 million during the year ended December 31, 2019, primarily due to a $61.3 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio.

Core other income increased by $8.3 million, primarily due to a $4.7 million increase in net gains resulting from prepayments and sales of commercial and residential loans and a $3.7 million increase in earnings from unconsolidated entities.

Infrastructure Lending Segment

The Infrastructure Lending Segment had Core Earnings of $16.6 million for the year ended December 31, 2019 compared to $1.3 million during the post-acquisition period from September 19, 2018 through December 31, 2018. After making adjustments for the calculation of Core Earnings, revenues were $106.6 million, costs and expenses were $78.5 million and other loss was $11.6 million.

Core revenues of $106.6 million primarily consisted of interest income of $99.6 million from loans and $6.3 million from investment securities.

Core costs and expenses of $78.5 million primarily consisted of $62.8 million of interest expense on the secured debt facilities used to finance this segment's investment portfolio and $15.6 million of general and administrative expenses.

Core other loss of $11.6 million principally reflects an $11.4 million loss on extinguishment of debt resulting from the write-off of deferred financing fees relating to partial debt prepayments from proceeds of loan repayments and sales.

Property Segment

Core Earnings by Portfolio (amounts in thousands)

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018	Change
Master Lease Portfolio	$ 16,866	$ 40,271	$ (23,405)
Medical Office Portfolio	18,965	25,440	(6,475)
Ireland Portfolio	84,321	18,285	66,036
Woodstar I Portfolio	29,367	26,106	3,261
Woodstar II Portfolio	23,090	17,218	5,872
Investment in unconsolidated entities	(139,534)	—	(139,534)
Other/Corporate	(4,033)	(4,821)	788
Core Earnings	**$ 29,042**	**$ 122,499**	**$ (93,457)**

The Property Segment's Core Earnings decreased by $93.5 million, from $122.5 million during the year ended December 31, 2018 to $29.0 million during the year ended December 31, 2019. After making adjustments for the calculation of Core Earnings, revenues were $286.7 million, costs and expenses were $180.5 million and other loss was $76.8 million.

Core revenues decreased by $4.8 million during the year ended December 31, 2019, primarily due to a decrease in rental income from the Master Lease Portfolio due to (i) the sale of seven properties within the Master Lease portfolio during 2018 and (ii) no longer recording as revenues and offsetting expenses property taxes paid directly by lessees, in accordance with the new lease accounting standard effective January 1, 2019 in both the Master Lease and Medical Office Portfolios, partially offset by (iii) the full period inclusion of rental income from the Woodstar II Portfolio, which was acquired over a period between December 2017 and September 2018, and (iv) rental rate increases in both Woodstar Portfolios.

Core costs and expenses decreased by $2.6 million during the year ended December 31, 2019, primarily due to the sale of seven properties from the Master Lease Portfolio in 2018 and no longer recording property taxes paid directly by lessees, both as discussed above, mostly offset by the full period inclusion of the Woodstar II Portfolio.

Core other income (loss) decreased by $98.4 million during the year ended December 31, 2019, primarily due to a $139.5 million core loss recognized on our investment in the Retail Fund. This loss reflects the full write-off of our investment due to decreases in fair value of properties held by the Retail Fund which management determined to be other than temporary. Partially offsetting this loss was a $37.0 million increase in core gains on property sales, reflecting a $60.1 million gain on sale of the Ireland Portfolio in December 2019 compared to gains of $23.1 million on the sales of seven properties in the Master Lease Portfolio during the year ended December 31, 2018.

The $60.1 million gain on sale of the Ireland Portfolio relates to the sale of the U.S. entity which held the net assets related to our Ireland Portfolio. The properties within the entity were sold for a gross purchase price of €530.0 million. After certain adjustments, including a €20.7 million tax withholding which was treated as a reduction of purchase price, the net purchase price was €507.6 million, plus estimated net working capital. Our undepreciated cost basis in these assets was €462.2 million. The resulting gain, after selling costs, was €40.5 (or $44.9) million. In addition, upon receipt of the net proceeds from the sale, we unwound all of our foreign currency hedges related to this portfolio, realizing a net gain of $15.2 million, bringing the total core gain on sale of this portfolio to $60.1 million.

Investing and Servicing Segment

The Investing and Servicing Segment's Core Earnings increased by $2.7 million, from $235.3 million during the year ended December 31, 2018 to $238.0 million during the year ended December 31, 2019. After making adjustments for the calculation of Core Earnings, revenues were $270.9 million, costs and expenses were $141.3 million, other income was $121.6 million, income tax provision was $8.1 million and the deduction of income attributable to non-controlling interests was $5.1 million.

Core revenues decreased by $50.8 million during the year ended December 31, 2019, primarily due to decreases of $33.9 million in servicing fees, $10.3 million in interest income from our CMBS portfolio and $5.8 million in rental income from our REIS Equity Portfolio due to fewer properties held. The treatment of CMBS interest income on a GAAP basis is complicated by our application of the ASC 810 consolidation rules. In an attempt to treat these securities similar to the trust's other investment securities, we compute core interest income pursuant to an effective yield methodology. In doing so, we segregate the portfolio into various categories based on the components of the bonds' cash flows and the volatility related to each of these components. We then accrete interest income on an effective yield basis using the components of cash flows that are reliably estimable. Other minor adjustments are made to reflect management's expectations for other components of the projected cash flow stream.

Core costs and expenses increased by $4.8 million during the year ended December 31, 2019, primarily due to a $6.2 million increase in interest expense principally related to the financing of our CMBS portfolio, partially offset by a $2.5 million decrease in costs of rental operations due to fewer properties held.

Core other income includes profit realized upon securitization of loans by our conduit business, gains on sales of CMBS and operating properties, gains and losses on derivatives that were either effectively terminated or novated, and earnings from unconsolidated entities. These items are typically offset by a decrease in the fair value of our domestic servicing rights intangible which reflects the expected amortization of this deteriorating asset, net of increases in fair value due to the attainment of new servicing contracts. Derivatives include instruments which hedge interest rate risk and credit risk on our conduit loans. For GAAP purposes, the loans, CMBS and derivatives are accounted for at fair value, with all changes in fair value (realized or unrealized) recognized in earnings. The adjustments to Core Earnings outlined above are also applied to the GAAP earnings of our unconsolidated entities. Core other income increased by $61.6 million principally due to (i) a $23.3 million increase in gains on sales of properties, (ii) a $17.8 million increase in realized gains on conduit loans, (iii) a $12.9 million lesser decrease in fair value of servicing rights, (iv) an $11.6 million increase in earnings from unconsolidated entities and (v) a $6.2 million increase in net recognized gains on CMBS investments, all partially offset by (vi) an $11.3 million unfavorable change in realized gains (losses) on derivatives.

Income taxes, which principally relate to the taxable nature of our loan servicing and loan conduit businesses and certain other real estate related investing activities which are housed in TRSs, increased $3.4 million due to an increase in taxable income of our TRSs.

Income attributable to non-controlling interests decreased $0.1 million.

Corporate

Core corporate costs and expenses increased by $9.4 million, from $196.3 million during the year ended December 31, 2018 to $205.7 million during the year ended December 31, 2019, primarily due to (i) a $9.5 million unfavorable change in gain (loss) on extinguishment of debt primarily due to the $10.0 million positive adjustment to Core Earnings during the year ended December 31, 2018 upon the repayment at maturity of the 2018 Notes, as described above, (ii) a $3.8 million increase in base management fees and (iii) a $2.5 million unfavorable change in gain (loss) on interest rate swaps, all partially offset by (iv) an $8.4 million decrease in interest expense principally on lower average outstanding balances of our unsecured senior notes.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Commercial and Residential Lending Segment

The Commercial and Residential Lending Segment's Core Earnings increased by $25.2 million, from $420.0 million during the year ended December 31, 2017 to $445.2 million during the year ended December 31, 2018. After making adjustments for the calculation of Core Earnings, revenues were $627.2 million, costs and expenses were $187.5 million and other income was $9.8 million.

Core revenues, consisting principally of interest income on loans, increased by $80.2 million during the year ended December 31, 2018, primarily due to a $76.8 million increase in interest income from loans and a $3.5 million increase in interest income from investment securities. The increased interest income from loans was principally due to (i) increased LIBOR rates, partially offset by the compression of interest rate spreads in credit markets, (ii) higher average balances of both commercial loans and residential loans held-for-sale and (iii) income of $15.1 million received in 2018 from a profit participation in a mortgage loan that was repaid in 2016, partially offset by (iv) lower levels of prepayment related income.

Core costs and expenses increased by $59.2 million during the year ended December 31, 2018, primarily due to a $53.6 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio and a $6.5 million increase in general and administrative expenses.

Core other income increased by $6.9 million, primarily due to a $24.3 million favorable change in foreign currency gain (loss) and a $4.1 million increase in realized gains on sales of investments primarily from securitizations of residential loans held-for-sale, partially offset by a $23.1 million unfavorable change in gain (loss) on foreign currency derivatives.

Infrastructure Lending Segment

The Infrastructure Lending Segment had Core Earnings of $1.3 million for the period from the initial acquisition on September 19, 2018 through December 31, 2018. After making adjustments for the calculation of Core Earnings, revenues were $30.7 million, costs and expenses were $29.1 million and other income (loss) was nominal.

Revenues of $30.7 million included interest income of $29.0 million from loans and $1.1 million from investment securities.

Costs and expenses of $29.1 million consisted of $20.9 million of interest expense on the debt facility used to finance a portion of the acquisition price and subsequent loan fundings, $5.2 million of general and administrative expenses and a $3.0 million acquisition-related commitment fee related to an unused bridge financing facility.

Property Segment

Core Earnings by Portfolio (amounts in thousands)

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017	Change
Master Lease Portfolio	$ 40,271	$ 7,111	$ 33,160
Medical Office Portfolio	25,440	26,340	(900)
Ireland Portfolio	18,285	18,932	(647)
Woodstar I Portfolio	26,106	22,538	3,568
Woodstar II Portfolio	17,218	53	17,165
Investment in unconsolidated entities	—	3,559	(3,559)
Other/Corporate	(4,821)	(2,686)	(2,135)
Core Earnings	**$ 122,499**	**$ 75,847**	**$ 46,652**

The Property Segment's Core Earnings increased by $46.7 million, from $75.8 million during the year ended December 31, 2017 to $122.5 million during the year ended December 31, 2018. After making adjustments for the calculation of Core Earnings, revenues were $291.6 million, costs and expenses were $183.1 million and other income was $21.6 million.

Core revenues increased by $94.0 million during the year ended December 31, 2018, primarily due to the fuller inclusion of rental income for the Master Lease Portfolio and Woodstar II Portfolio, both of which were acquired after August 2017.

Core costs and expenses increased by $58.8 million during the year ended December 31, 2018, primarily due to increases in interest expense of $29.3 million and rental related costs of $27.4 million primarily relating to the fuller inclusion of the Master Lease Portfolio and Woodstar II Portfolio.

Core other income increased by $18.8 million during the year ended December 31, 2018, primarily due to a $23.1 million net gain on sale of seven properties in the Master Lease Portfolio, partially offset by a $3.5 million decrease in equity in earnings recognized from our investment in the Retail Fund.

Investing and Servicing Segment

The Investing and Servicing Segment's Core Earnings decreased by $36.3 million, from $271.6 million during the year ended December 31, 2017 to $235.3 million during the year ended December 31, 2018. After making adjustments for the calculation of Core Earnings, revenues were $321.7 million, costs and expenses were $136.5 million, other income was $60.0 million, income tax provision was $4.7 million and the deduction of income attributable to non-controlling interests was $5.2 million.

Core revenues decreased by $4.4 million during the year ended December 31, 2018, primarily due to decreases of $7.3 million in servicing fees and $4.6 million in interest income from our CMBS portfolio, partially offset by an increase of $7.0 million in rental income from our REIS Equity Portfolio.

Core costs and expenses increased by $1.6 million during the year ended December 31, 2018, primarily due to increases of $7.6 million in interest expense and $5.3 million in costs of rental operations associated with our REIS Equity Portfolio, partially offset by an $11.0 million decrease in general and administrative expenses primarily reflecting lower profit-based compensation, headcount and corporate expense allocations.

Core other income decreased by $54.4 million principally due to decreases of $52.8 million in earnings from unconsolidated entities and $18.8 million in realized gains on conduit loans, partially offset by a $15.9 million lesser decrease in fair value of servicing rights. The decrease in earnings from unconsolidated entities reflects a $52.4 million realized gain in the year ended December 31, 2017 related to an unconsolidated investor entity which owns equity in an online real estate company and sold nearly all of its interest during that year.

Income taxes, which principally relate to the taxable nature of our loan servicing and loan conduit businesses and certain other real estate related investing activities which are housed in TRSs, decreased $25.9 million due to (i) a decrease in the taxable income of our TRSs, which during the year ended December 31, 2017 included the realized gain related to the unconsolidated investor entity which sold nearly all of its interest in an online real estate company, (ii) the non-recurring impact in 2017 of remeasuring our net deferred tax assets upon enactment of the Tax Cuts and Jobs Act and a (iii) a lower statutory tax rate in 2018.

Income attributable to non-controlling interests increased $1.8 million primarily due to the increased minority investors' share of gains from operating properties sold during the year ended December 31, 2018.

Corporate

Core corporate costs and expenses increased by $13.0 million, from $183.3 million during the year ended December 31, 2017 to $196.3 million during the year ended December 31, 2018, primarily due to a $9.1 million decrease in core gains on extinguishment of debt and a $5.4 million increase in base management fees.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet our cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make new investments where appropriate, pay dividends to our stockholders and other general business needs. We closely monitor our liquidity position and believe that we have sufficient current liquidity and access to additional liquidity to meet our financial obligations for at least the next 12 months. Our primary sources of liquidity are as follows:

Cash Flows for the Year Ended December 31, 2019 (amounts in thousands)

	GAAP	VIE Adjustments	Excluding Investing and Servicing VIEs
Net cash used in operating activities	**$ (13,199)**	**$ (7,189)**	**$ (20,388)**
Cash Flows from Investing Activities:			
Origination and purchase of loans held-for-investment	(5,473,399)	—	(5,473,399)
Proceeds from principal collections and sale of loans	4,273,779	—	4,273,779
Purchase of investment securities	(98,258)	(351,220)	(449,478)
Proceeds from sales and collections of investment securities	212,986	230,182	443,168
Proceeds from sales of real estate and related businesses, net of cash transferred	343,896	—	343,896
Purchases and additions to properties and other assets	(30,865)	(8,613)	(39,478)
Investment in unconsolidated entities	(18,055)	(13,323)	(31,378)
Net cash flows from other investments and assets	14,048	—	14,048
Net cash used in investing activities	**(775,868)**	**(142,974)**	**(918,842)**
Cash Flows from Financing Activities:			
Proceeds from borrowings	10,167,339	—	10,167,339
Principal repayments on and repurchases of borrowings	(8,671,085)	—	(8,671,085)
Payment of deferred financing costs	(72,438)	—	(72,438)
Proceeds from common stock issuances, net of offering costs	740	—	740
Payment of dividends	(538,424)	—	(538,424)
Contributions from non-controlling interests	183,520	—	183,520
Distributions to non-controlling interests	(49,958)	8,523	(41,435)
Issuance of debt of consolidated VIEs	184,540	(184,540)	—
Repayment of debt of consolidated VIEs	(373,155)	373,155	—
Distributions of cash from consolidated VIEs	45,642	(45,642)	—
Net cash provided by financing activities	**876,721**	**151,496**	**1,028,217**
Net increase in cash, cash equivalents and restricted cash	87,654	1,333	88,987
Cash, cash equivalents and restricted cash, beginning of year	487,865	(2,554)	485,311
Effect of exchange rate changes on cash	(1,488)	—	(1,488)
Cash, cash equivalents and restricted cash, end of year	$ 574,031	$ (1,221)	$ 572,810

The discussion below is on a non-GAAP basis, after removing adjustments principally resulting from the consolidation of the securitization VIEs under ASC 810. These adjustments principally relate to (i) the purchase of CMBS, RMBS, loans and real estate from consolidated VIEs, which are reflected as repayments of VIE debt on a GAAP basis and (ii) principal collections of CMBS and RMBS related to consolidated VIEs, which are reflected as VIE distributions on a GAAP basis. There is no significant net impact to cash flows from operations or to overall cash resulting from these consolidations. Refer to Note 2 to the Consolidated Financial Statements for further discussion.

Cash and cash equivalents increased by $89.0 million during the year ended December 31, 2019, reflecting net cash provided by financing activities of $1.0 billion, partially offset by net cash used in investing activities of $918.8 million and net cash used in operating activities of $20.4 million.

Net cash used in operating activities of $20.4 million during the year ended December 31, 2019 related primarily to cash interest expense of $481.5 million, $365.0 million in originations and purchases of loans held-for-sale, net of sales and principal collections, general and administrative expenses of $157.6 million, management fees of $90.1 million and a net change in operating assets and liabilities of $4.4 million. Offsetting these cash outflows was cash interest income of $573.2 million from our loan origination and conduit programs and cash interest income on investment securities of $193.9 million. Net rental income provided cash of $212.8 million, servicing fees provided cash of $73.7 million and distributions of earnings from unconsolidated entities provided $28.1 million.

Net cash used in investing activities of $918.8 million for the year ended December 31, 2019 related primarily to the origination and acquisition of new loans held-for-investment of $5.5 billion, the purchase of investment securities of $449.5 million, net additions to properties and other assets of $39.5 million and investment in unconsolidated entities of $31.4 million, partially offset by proceeds received from principal collections and sales of loans of $4.3 billion and investment securities of $443.2 million and proceeds from sales of real estate and related businesses of $343.9 million.

Net cash provided by financing activities of $1.0 billion for the year ended December 31, 2019 related primarily to borrowings on our secured debt, net of repayments and deferred loan costs, of $1.4 billion and net contributions from non-controlling interests of $142.1 million, partially offset by dividend distributions of $538.4 million.

Financing Arrangements

We utilize a variety of financing arrangements, including:

1) *Repurchase Agreements:* Repurchase agreements effectively allow us to borrow against loans and securities that we own. Under these agreements, we sell our loans and securities to a counterparty and agree to repurchase the same loans and securities from the counterparty at a price equal to the original sales price plus interest. The counterparty retains the sole discretion over both whether to purchase the loan and security from us and, subject to certain conditions, the market value of such loan or security for purposes of determining whether we are required to pay margin to the counterparty. Generally, if the lender determines (subject to certain conditions) that the market value of the collateral in a repurchase transaction has decreased by more than a defined minimum amount, we would be required to repay any amounts borrowed in excess of the product of (i) the revised market value multiplied by (ii) the applicable advance rate. During the term of a repurchase agreement, we receive the principal and interest on the related loans and securities and pay interest to the counterparty. As of December 31, 2019, we had various repurchase agreements, with details referenced in the table provided below.

2) *Secured Property Financings:* We use long-term mortgage facilities from commercial lenders and government sponsors of affordable housing loans to finance many of the investment properties that we hold. These facilities accrue interest at either fixed or floating rates. We typically hedge our exposure to floating interest rate changes on these facilities through the use of interest rate swap and cap derivatives.

3) *Bank Credit Facilities:* We use bank credit facilities (including term loans and revolving facilities) to finance our assets. These financings may be collateralized or non-collateralized and may involve one or more lenders. Credit facilities typically have maturities ranging from two to five years and may accrue interest at either fixed or floating rates. The lender retains the sole discretion, subject to certain conditions, over the market value of such note for purposes of determining whether we are required to pay margin to the lender.

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

5) *Unsecured Senior Notes:* We issue senior notes, some of which are convertible, to finance certain operating and investing activities of the Company. These senior notes accrue interest at fixed interest rates and vary in tenure. Refer to Note 11 to the Consolidated Financial Statements for further discussion.

6) *Federal Home Loan Bank Financing*: As a member of the FHLB of Chicago, we have the ability to borrow funds from the FHLB of Chicago at both fixed and variable rates to finance eligible collateral, which includes residential mortgage loans.

Secured Borrowings

The following table is a summary of our secured borrowings as of December 31, 2019 (dollars in thousands):

	Current Maturity	Extended Maturity (a)	Weighted Average Pricing	Pledged Asset Carrying Value	Maximum Facility Size	Outstanding Balance	Approved but Undrawn Capacity (b)	Unallocated Financing Amount (c)
Repurchase Agreements:								
Commercial Loans	Aug 2020 to Jan 2024 (d)	Aug 2021 to Apr 2028 (d)	(e)	$ 5,327,761	$ 9,066,480 (f)	$ 3,640,620	$ 132,957	$ 5,292,903
Residential Loans	Feb 2021	N/A	LIBOR + 2.10%	14,704	400,000	11,835	—	388,165
Infrastructure Loans	Feb 2020	Feb 2021	LIBOR + 1.75%	227,463	500,000	188,198	—	311,802
Conduit Loans	Feb 2020 to Jun 2022	Feb 2021 to Jun 2023	LIBOR + 2.10%	109,864	350,000	86,575	—	263,425
CMBS/RMBS	Sep 2020 to Dec 2029 (g)	Dec 2020 to June 2030 (g)	(h)	1,005,348	837,566	682,229	34,076	121,261
Total Repurchase Agreements				6,685,140	11,154,046	4,609,457	167,033	6,377,556
Other Secured Financing:								
Borrowing Base Facility	Apr 2022	Apr 2024	LIBOR + 2.25%	542,281	650,000 (i)	198,955	205,740	245,305
Infrastructure Acquisition Facility	Sep 2021	Sep 2022	(j)	754,443	771,534	603,642	—	167,892
Infrastructure Financing Facilities	Jul 2022 to Oct 2022	Oct 2024 to Jul 2027	LIBOR + 2.12%	524,197	1,000,000	428,206	—	571,794
Property Mortgages – Fixed rate	Nov 2024 to Aug 2052 (k)	N/A	3.94%	1,499,356	1,196,698	1,196,492	—	206
Property Mortgages - Variable rate	May 2020 to Jun 2026	N/A	LIBOR + 2.49%	783,460	714,810	696,503	—	18,307
Term Loan and Revolver	(l)	N/A	(l)	N/A (l)	519,000	399,000	120,000	—
FHLB	Feb 2021	N/A	(m)	1,262,250	2,000,000	867,870	—	1,132,130
Collateralized Loan Obligation	Jul 2038	N/A	LIBOR + 1.34%	1,073,504	936,375	936,375	—	—
Total Other Secured Financing				6,439,491	7,788,417	5,327,043	325,740	2,135,634
				$ 13,124,631	$ 18,942,463	$ 9,936,500	$ 492,773	$ 8,513,190
Unamortized net discount						(8,347)		
Unamortized deferred financing costs						(94,045)		
						$ 9,834,108		

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

(b) Approved but undrawn capacity represents the total draw amount that has been approved by the lenders related to those assets that have been pledged as collateral, less the drawn amount.

(c) Unallocated financing amount represents the maximum facility size less the total draw capacity that has been approved by the lenders.

(d) For certain facilities, borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions.

(e) Certain facilities with an outstanding balance of $874.9 million as of December 31, 2019 are indexed to GBP LIBOR and EURIBOR. The remainder have a weighted average rate of LIBOR + 1.90%.

(f) The aggregate initial maximum facility size of $8.9 billion may be increased at our option, subject to certain conditions. This amount includes such upsizes.

(g) Certain facilities with an outstanding balance of $295.0 million as of December 31, 2019 carry a rolling 11-month or 12-month term which may reset monthly with the lender's consent. These facilities carry no maximum facility size.

(h) A facility with an outstanding balance of $184.7 million as of December 31, 2019 has a fixed annual interest rate of 3.49%. All other facilities are variable rate with a weighted average rate of LIBOR + 1.58%.

(i) The initial maximum facility size of $300.0 million may be increased to $650.0 million, subject to certain conditions.

(j) Consists of an annual interest rate of the applicable currency benchmark index + 1.50%. The spread increases 25 bps in each of the second and third years of the facility, which was entered into in September 2018.

(k) The weighted average maturity is 9.8 years as of December 31, 2019.

(l) Consists of: (i) a $399.0 million term loan facility that matures in July 2026 with an annual interest rate of LIBOR + 2.50%; and (ii) a $120.0 million revolving credit facility that matures in July 2024 with an annual interest rate of LIBOR + 3.00%. These facilities are secured by the equity interests in certain of our subsidiaries which totaled $3.1 billion as of December 31, 2019.

(m) FHLB financing with an outstanding balance of $438.5 million as of December 31, 2019 has a weighted average fixed annual interest rate of 2.01%. The remainder is variable rate with a weighted average rate of LIBOR + 0.28%.

Refer to Note 10 to the Consolidated Financial Statements for a detailed discussion of new secured credit facilities and amendments to existing credit facilities entered into during the year ended December 31, 2019.

Variance between Average and Quarter-End Credit Facility Borrowings Outstanding

The following tables compare the average amount outstanding under our secured financing agreements during each quarter and the amount outstanding as of the end of each quarter, together with an explanation of significant variances (amounts in thousands):

Quarter Ended	Quarter-End Balance	Weighted-Average Balance During Quarter	Variance	Explanations for Significant Variances
March 31, 2019	$ 9,305,605	$ 9,766,206	$ (460,601)	(a)
June 30, 2019	9,359,610	9,503,479	(143,869)	(b)
September 30, 2019	9,266,704	9,116,755	149,949	(c)
December 31, 2019	9,936,500	9,535,839	400,661	(d)

(a) Variance primarily due to the late quarter timing of commercial loan sales and loan repayments, all of which resulted in paydowns of the corresponding credit facilities which financed these assets.

(b) Variance primarily due to loan repayments on the Infrastructure Acquisition Facility and Commercial Loans repurchase facilities.

(c) Variance primarily due to the net increase in debt related to the CLO issuance in August 2019.

(d) Variance primarily due to the following: (i) the late quarter timing of commercial loan fundings, which resulted in the Company drawing on its corresponding credit facilities which financed these assets and (ii) borrowings on a new Infrastructure Financing Facility.

Quarter Ended	Quarter-End Balance	Weighted-Average Balance During Quarter	Variance	Explanations for Significant Variances
March 31, 2018	$ 5,596,955	$ 5,573,668	$ 23,287	N/A
June 30, 2018	6,263,085	5,813,312	449,773	(a)
September 30, 2018	8,671,698	6,918,063	1,753,635	(b)
December 31, 2018	8,761,624	8,885,381	(123,757)	(c)

(a) The Commercial and Residential Lending Segment funded 63% of the second quarter's total loan fundings during June 2018, which resulted in the Company drawing on its secured financing agreements near quarter end to finance the additional loan fundings.

(b) The Infrastructure Lending Segment acquisition closed on September 19, 2018, which resulted in the funding of $1.5 billion under the Infrastructure Acquisition Facility.

(c) Variance primarily due to $120.0 million repaid on Commercial Loans repurchase facilities in December 2018.

Borrowings under Unsecured Senior Notes

During the years ended December 31, 2019 and 2018, the weighted average effective borrowing rate on our unsecured senior notes was 4.9% and 4.8%, respectively. The effective borrowing rate includes the effects of underwriter purchase discount and the adjustment for the conversion option on the convertible notes, the initial value of which reduced the balance of the notes.

Refer to Note 11 to the Consolidated Financial Statements for further disclosure regarding the terms of our unsecured senior notes.

Scheduled Principal Repayments on Investments and Overhang on Financing Facilities

The following scheduled and/or projected principal repayments on our investments were based on amounts outstanding and extended contractual maturities of those investments as of December 31, 2019. The projected and/or required repayments of financing were based on the earlier of (i) the extended contractual maturity of each credit facility or (ii) the extended contractual maturity of each of the investments that have been pledged as collateral under the respective credit facility (amounts in thousands):

	Scheduled Principal Repayments on Loans and HTM Securities	Scheduled/Projected Principal Repayments on RMBS and CMBS	Projected/Required Repayments of Financing	Scheduled Principal Inflows Net of Financing Outflows
First Quarter 2020	284,401	43,648	(377,174)(1)	(49,125)
Second Quarter 2020	351,089	41,692	(168,807)	223,974
Third Quarter 2020	267,978	11,821	(62,368)	217,431
Fourth Quarter 2020	200,371	136,226	(436,786)(2)	(100,189)
Total	$ 1,103,839	$ 233,387	$ (1,045,135)	$ 292,091

(1) Includes $340.6 million of maturities associated with the financing of residential loans held-for-sale under the FHLB facility. Expected proceeds from sales of loans are not reflected in this table.

(2) Includes $295.0 million of repayments associated with a secured financing facility that carries a rolling 12-month term which may reset monthly with the lender's consent.

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.

Issuances of Equity Securities

We may raise funds through capital market transactions by issuing capital stock. There can be no assurance, however, that we will be able to access the capital markets at any particular time or on any particular terms. We have authorized 100,000,000 shares of preferred stock and 500,000,000 shares of common stock. At December 31, 2019, we had 100,000,000 shares of preferred stock available for issuance and 217,799,249 shares of common stock available for issuance.

Refer to Note 17 to the Consolidated Financial Statements for a discussion of our issuances of equity securities in recent years.

Other Potential Sources of Financing

In the future, we may also use other sources of financing to fund the acquisition of our target assets, including other secured as well as unsecured forms of borrowing and sale of senior loan interests and other assets.

Off-Balance Sheet Arrangements

We have relationships with unconsolidated entities and financial partnerships, such as entities often referred to as VIEs. Our maximum risk of loss associated with our involvement in VIEs is limited to the carrying value of our investment in the entity and any unfunded capital commitments. Refer to Note 15 to the Consolidated Financial Statements for further discussion.

Dividends

We intend to continue to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. We intend to continue to pay regular quarterly dividends to our stockholders in an amount approximating our net taxable income, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating and debt service requirements. If our cash available for distribution is less than our net taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. Refer to Note 17 to the Consolidated Financial Statements for a detailed dividend history.

The tax treatment for our aggregate distributions per share of common stock paid with respect to the 2019 tax year is as follows:

Record Date	Payable Date	Per Share Dividend Paid	Ordinary Taxable Dividends	Taxable Qualified Dividends	Capital Gain Distribution	Unrecaptured 1250 Gain	Nondividend Distributions	Section 199A Dividends
12/31/2018 . . .	1/15/2019	$ 0.3180	$ 0.2082	$ 0.0137	$ 0.1098	$ 0.0264	$ —	$ 0.1945
3/29/2019	4/15/2019	0.4800	0.3142	0.0206	0.1658	0.0398	—	0.2936
6/28/2019	7/15/2019	0.4800	0.3142	0.0206	0.1658	0.0398	—	0.2936
9/30/2019	10/15/2019	0.4800	0.3142	0.0206	0.1658	0.0398	—	0.2936
12/31/2019 . . .	1/15/2020	0.0079	0.0052	0.0003	0.0027	0.0006	—	0.0049
		$ 1.7659	$ 1.1560	$ 0.0758	$ 0.6099	$ 0.1464	$ —	$ 1.0802

To the extent that total dividends for the 2019 tax year exceeded 2019 taxable income, the portion of the fourth quarter dividend paid in January of 2020 that is equal to such excess is treated as a 2020 dividend for federal tax purposes.

Leverage Policies

We employ leverage, to the extent available, to fund the acquisition of our target assets, increase potential returns to our stockholders, or provide temporary liquidity. Leverage can be either direct by utilizing private third party financing or indirect through originating, acquiring or retaining subordinated mortgages, B-Notes, subordinated loan participations or mezzanine loans. Although the type of leverage we deploy is dependent on the underlying asset that is being financed, we intend, when possible, to utilize leverage whose maturity is equal to or greater than the maturity of the underlying asset and minimize to the greatest extent possible exposure to the Company of credit losses associated with any individual asset. In addition, we intend to mitigate the impact of potential future interest rate increases on our borrowings through utilization of hedging instruments, primarily interest rate swap agreements.

The amount of leverage we deploy for particular investments in our target assets depends upon our Manager's assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. and European economy and commercial, residential and infrastructure markets, our outlook for the level, slope and volatility of interest rates, the credit quality of our assets, the collateral underlying our assets and our outlook for asset spreads relative to the LIBOR curve. Under our current repurchase agreements and bank credit facility, our total leverage may not exceed 80% of total assets (as defined), as adjusted to remove the impact of bona-fide loan sales that are accounted for as financings and the consolidation of VIEs pursuant to GAAP. As of December 31, 2019, our total debt to assets ratio was 68.0%.

Contractual Obligations and Commitments

Contractual obligations as of December 31, 2019 are as follows (amounts in thousands):

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Secured financings (a)	$ 9,000,125	$ 850,326	$ 1,471,000	$ 3,848,815	$ 2,829,984
Collateralized loan obligations	936,375	—	—	—	936,375
Unsecured senior notes	1,950,000	—	1,200,000	250,000	500,000
Loan and preferred equity interest funding commitments (b)	2,921,081	1,850,151	995,798	75,132	—
Infrastructure Lending Segment commitments (c)	360,562	285,635	74,927	—	—
Future lease commitments	35,518	6,629	8,246	3,226	17,417
Total	$15,203,661	$ 2,992,741	$ 3,749,971	$ 4,177,173	$ 4,283,776

(a) Represents the contractual maturity of the respective credit facility, inclusive of available extension options. If investments that have been pledged as collateral repay earlier than the contractual maturity of the debt, the related portion of the debt would likewise require earlier repayment. Refer to Note 10 to the Consolidated Financial Statements for the expected maturities by year.

(b) Excludes $231.0 million of loan funding commitments in which management projects the Company will not be obligated to fund in the future due to repayments made by the borrower earlier than, or in excess of, expectations.

(c) Represents contractual commitments of $145.1 million under revolvers and letters of credit and $215.5 million under delayed draw term loans

The table above does not include interest payable, amounts due under our management agreement, amounts due under our derivative agreements or amounts due under guarantees as those contracts do not have fixed and determinable payments.

Critical Accounting Estimates

Our financial statements are prepared in accordance with GAAP, which requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that all of the decisions and assessments upon which our financial statements are based were reasonable at the time made, based upon information available to us at that time. The following discussion describes the critical accounting estimates that apply to our operations and require complex management judgment. This summary should be read in conjunction with a more complete discussion of our accounting policies included in Note 2 to the Consolidated Financial Statements.

Loan Impairment

We evaluate each loan classified as held-for-investment for impairment at least quarterly. Impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, we record an allowance through the provision for loan losses to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral.

We regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral, as well as the financial and operating capability of the borrower. Specifically, the collateral'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 and/or (iii) the collateral'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 collateral. In addition, we consider the overall economic environment, real estate or industry 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.

Significant judgment is required when evaluating loans for impairment; therefore, actual results over time could be materially different. The loan loss allowance was $33.6 million as of December 31, 2019, which includes $29.9 million of impairment reserves on specific loans recorded during the year ended December 31, 2018, a general loan loss allowance of $3.5 million based on our loan risk rating system and an allowance for infrastructure loans held-for-sale where amortized cost is in excess of fair value of $0.2 million.

Classification and Impairment Evaluation of Investment Securities

Our investment securities consist primarily of (i) RMBS that we classify as available-for-sale, (ii) CMBS, infrastructure bonds and mandatorily redeemable preferred equity interests in commercial real estate entities which we expect to hold to maturity and (iii) CMBS and RMBS for which we have elected the fair value option. Investments classified as available-for-sale are carried at their fair value. For available-for-sale debt securities where we have not elected the fair value option, changes in fair value are recorded through accumulated other comprehensive income, a component of stockholders' equity, rather than through earnings. We do not hold any of our investment securities for trading purposes.

When the estimated fair value of a debt security for which we have not elected to apply the fair value option is less than its amortized cost, we consider whether there is other-than-temporary impairment ("OTTI") in the value of the security. An impairment is deemed an OTTI if (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovering our cost basis or (iii) we do not expect to recover our cost basis even if we do not intend to sell the security or do not believe it is more likely than not that we will be required to sell the security before recovering our cost basis. If the impairment is deemed to be an OTTI, the resulting accounting treatment depends on the factors causing the OTTI. If the OTTI has resulted from (i) our intention to sell the security, or (ii) our judgment that it is more likely than not that we will be required to sell the security before recovering our cost basis, an impairment loss is recognized in earnings equal to the difference between our amortized cost basis and fair value. Whereas, if the OTTI has resulted from our conclusion that we will not recover our cost basis even if we do not intend to sell the security or do not believe it is more likely than not that we will be required to sell the security before recovering our cost basis, only the credit loss portion of the impairment is recorded in earnings, and the portion of the loss related to other factors, such as changes in interest rates, continues to be recognized in accumulated other comprehensive income. Determining whether there is an OTTI may require us to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates. As a result, actual OTTI losses could differ from reported amounts.

Such judgments and assumptions are based upon a number of factors, including (i) credit of the issuer or the borrowers, (ii) credit rating of the security, (iii) key terms of the security, (iv) performance of underlying loans, including debt service coverage and loan-to-value ratios, (v) the value of the collateral for underlying loans, (vi) the effect of local, industry, and broader economic factors, and (vii) the historical and anticipated trends in defaults and loss severities for similar securities. As of December 31, 2019, we held $189.6 million of available-for-sale RMBS which had gross unrealized gains of $51.3 million and immaterial unrealized losses. We also had $570.6 million of held-to-maturity debt securities which had gross unrealized losses of $4.0 million and gross unrealized gains of $2.1 million as of December 31, 2019. We recognized no material OTTI charges against earnings with respect to our investment securities during the years ended December 31, 2019, 2018 and 2017.

Valuation of Financial Assets and Liabilities Carried at Fair Value

We measure our VIE assets and liabilities, 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. See Note 20 to the Consolidated Financial Statements for details regarding the various methods and inputs we use in measuring the fair value of our financial assets and liabilities. As of December 31, 2019, we had $63.9 billion and $60.8 billion of financial assets and liabilities, respectively, that are measured at fair value, including $62.2 billion of VIE assets and $60.7 billion of VIE liabilities we consolidate pursuant to ASC 810.

We measure the assets and liabilities of consolidated securitization VIEs at fair value pursuant to our election of the fair value option. The securitization VIEs in which we invest are “static”; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the VIE, we maximize the use of observable inputs over unobservable inputs. As a result, the methods and inputs we use in measuring the fair value of the assets and liabilities of our VIEs affect our earnings only to the extent of their impact on our direct investment in the VIEs.

Goodwill Impairment

Our goodwill at December 31, 2019 of $259.8 million represents the excess of consideration transferred over the fair value of net assets acquired in connection with the acquisitions of LNR in April 2013 and the Infrastructure Lending Segment in September 2018 and October 2018. In testing goodwill for impairment, we follow ASC 350, *Intangibles—Goodwill and Other*, which permits a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill. If the qualitative assessment determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill, then no impairment is determined to exist for the reporting unit. However, if the qualitative assessment determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value including goodwill, or we choose not to perform the qualitative assessment, then we compare the fair value of that reporting unit with its carrying value, including goodwill (“Step One”). If the carrying value of a reporting unit exceeds its fair value, goodwill is considered impaired with the impairment loss equal to the amount by which the carrying value of the goodwill exceeds the implied fair value of that goodwill.

Based on our qualitative assessment during the fourth quarter of 2019, we believe that the Investing and Servicing Segment reporting unit to which the LNR acquisition goodwill was attributed is not currently at risk of failing Step One of the impairment test. This qualitative assessment required judgment to be applied in evaluating the effects of multiple factors, including actual and projected financial performance of the reporting unit, macroeconomic conditions, industry and market conditions, and relevant entity specific events in determining whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill.

Based on our Step One quantitative assessment during the fourth quarter of 2019, we determined that the fair value of the Infrastructure Lending Segment reporting unit to which goodwill is attributed exceeded its carrying value including goodwill. This quantitative assessment required judgment to be applied in determining the fair value of our equity in the Infrastructure Lending Segment, which included estimates of future cash flows, terminal equity multiple and market discount rate.

Property Impairment

We review properties for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability is determined by comparing the carrying amount of the property to the undiscounted future net cash flows it is expected to generate. If such carrying amount exceeds the expected undiscounted future net cash flows, we adjust the carrying amount of the property to its estimated fair value. The estimation of future net cash flows and fair values of our properties involves significant judgments by our management, and changes to these judgments could significantly impact our reported results of operations. As of December 31, 2019 we held properties with a carrying value of $2.3 billion, none of which we determined were impaired at any point during the year ended December 31, 2019.

Impairment of Investments in Unconsolidated Entities

Investments in unconsolidated entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or each reporting period for certain other investments accounted for under the fair value practicability exception. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods, estimated fair values of underlying assets and available information at the time the analyses are prepared. As of December 31, 2019, we held investments in unconsolidated entities with a carrying value of $84.3 million. We recorded an impairment loss of $71.9 million in connection with our equity method investment in the Retail Fund as of December 31, 2019 based on our estimated fair values of the underlying assets (refer to Note 8 to the Consolidated Financial Statements).

Recent Accounting Developments

Refer to Note 2 to the Consolidated Financial Statements for a discussion of recent accounting developments and the expected impact to the Company.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Credit Risk

Our loans and investments are subject to credit risk. The performance and value of our loans and investments depend upon the owners' ability to operate the properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us. To monitor this risk, our asset management team reviews our investment portfolios and is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary.

We seek to further manage credit risk associated with our Investing and Servicing Segment loans held-for-sale through the purchase of credit index instruments. The following table presents our credit index instruments as of December 31, 2019 and December 31, 2018 (dollars in thousands):

	Face Value of Loans Held-for-Sale	Aggregate Notional Value of Credit Index Instruments	Number of Credit Index Instruments
December 31, 2019	$ 160,635	$ 89,000	5
December 31, 2018	$ 46,249	$ 24,000	3

Capital Market Risk

We are exposed to risks related to the equity capital markets and our related ability to raise capital through the issuance of our common stock or other equity instruments. We are also exposed to risks related to the debt capital markets, and our related ability to finance our business through borrowings under repurchase obligations or other debt instruments. As a REIT, we are required to distribute a significant portion of our taxable income annually, which constrains our ability to accumulate operating cash flow and therefore requires us to utilize debt or equity capital to finance our business. We seek to mitigate these risks by monitoring the debt and equity capital markets to inform our decisions on the amount, timing and terms of capital we raise.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our investments and the related financing obligations. In general, we seek to match the interest rate characteristics of our investments with the interest rate characteristics of any related financing obligations such as repurchase agreements, bank credit facilities, term loans, revolving facilities and securitizations. In instances where the interest rate characteristics of an investment and the related financing obligation are not matched, we mitigate such interest rate risk through the utilization of interest rate derivatives of the same duration. The following table presents financial instruments where we have utilized interest rate derivatives to hedge interest rate risk and the related interest rate derivatives as of December 31, 2019 and 2018 (dollars in thousands):

	Face Value of Hedged Instruments	Aggregate Notional Value of Interest Rate Derivatives	Number of Interest Rate Derivatives
Instrument hedged as of December 31, 2019			
Loans held-for-investment, residential	$ 654,925	$ 169,200	8
Loans held-for-sale	747,779	344,900	24
RMBS, available-for-sale	278,853	85,000	2
HTM debt securities	18,784	18,784	1
Secured financing agreements	693,496	1,423,881	14
Unsecured senior notes	1,000,000	970,000	2
	$ 3,393,837	$ 3,011,765	51
Instrument hedged as of December 31, 2018			
Loans held-for-sale	$ 346,300	$ 337,700	10
RMBS, available-for-sale	309,497	109,000	3
Secured financing agreements	1,085,717	1,029,376	16
Unsecured senior notes	1,000,000	970,000	2
	$ 2,741,514	$ 2,446,076	31

The following table summarizes the estimated annual change in net investment income for our variable rate investments and our variable rate debt assuming increases or decreases in LIBOR or other applicable index rates and adjusted for the effects of our interest rate hedging activities (amounts in thousands, except per share data):

Income (Expense) Subject to Interest Rate Sensitivity	Variable rate investments and indebtedness (1)	2.0% Increase	1.0% Increase	1.0% Decrease	2.0% Decrease
Investment income from variable rate investments	$ 10,021,039	$ 187,250	$ 87,453	$ (50,173)	$ (72,550)
Interest expense from variable rate debt, net of interest rate derivatives	(7,097,303)	(156,089)	(77,971)	75,439	128,804
Net investment income from variable rate instruments	$ 2,923,736	$ 31,161	$ 9,482	$ 25,266	$ 56,254
Impact per diluted shares outstanding		$ 0.11	$ 0.03	$ 0.09	$ 0.20

(1) Includes the notional value of interest rate derivatives.

LIBOR Transition Risk

In July 2017, the United Kingdom's Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. There is currently no certainty regarding the future utilization of LIBOR or of any particular replacement rate (although the secured overnight financing rate has been proposed as an alternative to U.S.-dollar LIBOR). As indicated in the *Interest Rate Risk* section above, a substantial portion of our loans, investment securities, borrowings and interest rate derivatives are indexed to LIBOR or similar reference rates. Market participants anticipate that financial instruments tied to LIBOR will require transition to an alternative reference rate if LIBOR is no longer available. Our LIBOR-based loan agreements and borrowing arrangements generally specify alternative reference rates such as the prime rate and federal funds rate, respectively. The potential effect of the discontinuation of LIBOR on our interest income and expense cannot yet be determined and any changes to benchmark interest rates could increase our financing costs and/or result in mismatches between the interest rates of our investments and the corresponding financings.

Prepayment Risk

Prepayment risk is the risk that principal will be repaid earlier than anticipated, causing the return on certain investments to be less than expected. As we receive prepayments of principal on our assets, any premiums paid on such assets are amortized against interest income. In general, an increase in prepayment rates accelerates the amortization of purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates accelerates the accretion of purchase discounts, thereby increasing the interest income earned on the assets.

Extension Risk

We compute the projected weighted-average life of our assets based on assumptions regarding the rate at which the borrowers will prepay the loans or extend. If prepayment rates decrease in a rising interest rate environment or extension options are exercised, the life of the fixed-rate assets could extend beyond the term of the secured debt agreements. This could have a negative impact on our results of operations. In some situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Fair Value Risk

The estimated fair value of our investments fluctuates primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, the estimated fair value of the fixed-rate investments would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of the fixed-rate investments would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our assets recorded and/or disclosed may be adversely impacted. Our economic exposure is generally limited to our net investment position as we seek to fund fixed rate investments with fixed rate financing or variable rate financing hedged with interest rate swaps.

Foreign Currency Risk

We intend to hedge our currency exposures in a prudent manner. However, our currency hedging strategies may not eliminate all of our currency risk due to, among other things, uncertainties in the timing and/or amount of payments received on the related investments, and/or unequal, inaccurate, or unavailable hedges to perfectly offset changes in future exchange rates. Additionally, we may be required under certain circumstances to collateralize our currency hedges for the benefit of the hedge counterparty, which could adversely affect our liquidity.

Consistent with our strategy of hedging foreign currency exposure on certain investments, we typically enter into a series of forwards to fix the U.S. dollar amount of foreign currency denominated cash flows (interest income, rental income and principal payments) we expect to receive from our foreign currency denominated investments. Accordingly, the notional values and expiration dates of our foreign currency hedges approximate the amounts and timing of future payments we expect to receive on the related investments.

The following table represents our current currency hedge exposure as it relates to our investments denominated in foreign currencies, along with the aggregate notional amount of the hedges in place (amounts in thousands except for number of contracts) using the December 31, 2019 GBP closing rate of 1.3259, Euro ("EUR") closing rate of 1.1215 and Australian Dollar ("AUD") closing rate of 0.7021:

Carrying Value of Net Investment	Local Currency	Number of Foreign Exchange Contracts	Aggregate Notional Value of Hedges Applied	Expiration Range of Contracts
$ 97,427	GBP	2	$ 97,114	March 2020 – December 2023
9,461	EUR	72	9,346	August 2020 – July 2021
32,702	GBP	1	37,702	July 2023
3,829	GBP	3	9,441	February 2020 – June 2020
60,313	GBP	16	158,811	January 2020 – July 2021
33,265	EUR	8	36,910	May 2020 – March 2022
21,264	EUR	44	31,641	February 2020 – August 2022
95,296	GBP	12	111,165	January 2020 – January 2022
54,232	GBP	9	52,167	April 2021
2,753	AUD	1	4,417	March 2020
23,431	EUR	30	31,649	February 2020 – June 2023
56,515	EUR	12	70,351	February 2020 – November 2022
28,409	GBP	8	34,625	March 2020 – December 2021
10,655	AUD	3	13,732	November 2021
58,455	GBP	32	74,097	February 2020 – November 2021
2,599	EUR	1	4,453	June 2022
12,664	GBP	10	13,891	March 2020 – April 2022
2,377	GBP	—	—	N/A
—	EUR	1	39,025	January 2020
$ 605,647		265	$ 830,537	

Real Estate Risk

The market values of commercial and residential mortgage assets are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans, which could also cause us to suffer losses.

Inflation Risk

Most of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance significantly more than inflation does. Changes in interest rates may correlate with inflation rates and/or changes in inflation rates. Our financial statements are prepared in accordance with GAAP, and our distributions are determined by our board of directors consistent with our obligation to distribute to our stockholders at least 90% of our REIT taxable income on an annual basis in order to maintain our REIT qualification; in each case, our activities and balance sheet are measured with reference to historical cost and/or fair value without considering inflation.

Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements and Schedules

All other schedules are omitted because they are not required or the required information is shown in the financial statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Starwood Property Trust, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Starwood Property Trust, Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Investment Securities - Valuation of Level 3 Residential Mortgage Backed Securities and Commercial Mortgage Backed Securities — Refer to Notes 6 and 20 to the consolidated financial statements

Critical Audit Matter Description

The Company has commercial mortgage backed securities recorded in accordance with the fair value option and residential mortgage backed securities, available-for-sale recorded at fair value that are not actively traded and whose fair values are derived from proprietary pricing models that utilize unobservable inputs, market bids, other third-party prices or quotes. Under accounting principles generally accepted in the United States of America, these financial instruments are generally classified as Level 3 assets. Management's judgments in selecting the price estimate that is most reflective of fair value is inherently subjective.

Performing audit procedures to evaluate the appropriateness of these fair values requires a high degree of auditor judgement and an increased extent of effort, including the need to involve our fair value specialists who possess significant quantitative and modeling expertise.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's fair value estimates for Level 3 assets, included the following, among others:

- We tested the effectiveness of controls, including those controls relating to investment security metrics and characteristics, pricing sources, pricing policy and pricing selection.

- With the assistance of our fair value specialists, we developed independent fair value estimates for selected investment securities and compared our estimates to management's estimates.

- We evaluated the differences between our estimates of fair value and management's estimates and considered whether there were any indicators of management bias.

/s/ DELOITTE & TOUCHE LLP

Miami, Florida
February 25, 2020

We have served as the Company's auditor since 2009.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of
Starwood Property Trust, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Starwood Property Trust. Inc. and subsidiaries (the "Company") as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 25, 2020, expressed an unqualified opinion on those financial statements and financial statement schedules.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Miami, Florida
February 25, 2020

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Balance Sheets
(Amounts in thousands, except share data)

	As of December 31, 2019	As of December 31, 2018
Assets:		
Cash and cash equivalents	$ 478,388	$ 239,824
Restricted cash	95,643	248,041
Loans held-for-investment, net ($671,572 and $0 held at fair value)	10,586,074	8,532,356
Loans held-for-sale ($764,622 and $671,282 held at fair value)	884,150	1,187,552
Loans transferred as secured borrowings	—	74,346
Investment securities ($239,600 and $262,319 held at fair value)	810,238	906,468
Properties, net	2,266,440	2,784,890
Intangible assets ($16,917 and $20,557 held at fair value)	85,700	145,033
Investment in unconsolidated entities	84,329	171,765
Goodwill	259,846	259,846
Derivative assets	28,943	52,691
Accrued interest receivable	64,087	60,355
Other assets	211,323	152,922
Variable interest entity (“VIE”) assets, at fair value	62,187,175	53,446,364
Total Assets	**$ 78,042,336**	**$ 68,262,453**
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 212,006	$ 217,663
Related-party payable	40,925	44,043
Dividends payable	137,427	133,466
Derivative liabilities	8,740	15,415
Secured financing agreements, net	8,906,048	8,683,565
Collateralized loan obligations, net	928,060	—
Unsecured senior notes, net	1,928,622	1,998,831
Secured borrowings on transferred loans, net	—	74,239
VIE liabilities, at fair value	60,743,494	52,195,042
Total Liabilities	**72,905,322**	**63,362,264**
Commitments and contingencies (Note 22)		
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, $0.01 per share, 500,000,000 shares authorized, 287,380,891 issued and 282,200,751 outstanding as of December 31, 2019 and 280,839,692 issued and 275,659,552 outstanding as of December 31, 2018	2,874	2,808
Additional paid-in capital	5,132,532	4,995,156
Treasury stock (5,180,140 shares)	(104,194)	(104,194)
Accumulated other comprehensive income	50,932	58,660
Accumulated deficit	(381,719)	(348,998)
Total Starwood Property Trust, Inc. Stockholders’ Equity	4,700,425	4,603,432
Non-controlling interests in consolidated subsidiaries	436,589	296,757
Total Equity	**5,137,014**	**4,900,189**
Total Liabilities and Equity	**$ 78,042,336**	**$ 68,262,453**

Note: In addition to the VIE assets and liabilities which are separately presented, our consolidated balance sheet as of December 31, 2019 includes assets of $1.1 billion and liabilities of $0.9 billion related to a consolidated collateralized loan obligation (“CLO”), which is considered to be a VIE. The CLO’s assets can only be used to settle obligations of the CLO, and the CLO’s liabilities do not have recourse to Starwood Property Trust, Inc. Refer to Note 15 for additional discussion of VIEs.

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Operations
(Amounts in thousands, except per share data)

	For the Year Ended December 31,		
	2019	2018	2017
Revenues:			
Interest income from loans	$ 724,013	$ 620,543	$ 513,814
Interest income from investment securities	76,629	56,839	52,813
Servicing fees	54,296	78,766	61,446
Rental income	337,966	349,684	249,000
Other revenues	3,515	3,448	2,815
Total revenues	**1,196,419**	**1,109,280**	**879,888**
Costs and expenses:			
Management fees	119,132	129,455	122,699
Interest expense	508,729	408,188	295,666
General and administrative	155,112	136,132	129,587
Acquisition and investment pursuit costs	1,056	8,587	3,472
Costs of rental operations	122,982	127,068	94,258
Depreciation and amortization	113,322	132,649	93,603
Loan loss provision, net	7,126	34,821	(5,458)
Other expense	2,365	732	1,422
Total costs and expenses	**1,029,824**	**977,632**	**735,249**
Other income (loss):			
Change in net assets related to consolidated VIEs	236,309	165,892	252,434
Change in fair value of servicing rights	(3,640)	(10,202)	(24,323)
Change in fair value of investment securities, net	833	10,345	(3,811)
Change in fair value of mortgage loans held-for-sale, net	71,601	40,522	66,987
(Loss) earnings from unconsolidated entities	(101,354)	10,540	30,505
Gain on sale of investments and other assets, net	188,028	59,044	20,499
(Loss) gain on derivative financial instruments, net	(6,310)	34,603	(72,532)
Foreign currency gain (loss), net	17,582	(9,245)	33,671
Total other-than-temporary impairment (“OTTI”)	(267)	—	(180)
Noncredit portion of OTTI recognized in other comprehensive income	267	—	71
Net impairment losses recognized in earnings	—	—	(109)
Loss on extinguishment of debt	(19,270)	(5,808)	(5,915)
Other (loss) income, net	(207)	(812)	2,244
Total other income	**383,572**	**294,879**	**299,650**
Income before income taxes	**550,167**	**426,527**	**444,289**
Income tax provision	(13,232)	(15,330)	(31,522)
Net income	**536,935**	**411,197**	**412,767**
Net income attributable to non-controlling interests	(27,271)	(25,367)	(11,997)
Net income attributable to Starwood Property Trust, Inc.	**$ 509,664**	**$ 385,830**	**$ 400,770**
Earnings per share data attributable to Starwood Property Trust, Inc.:			
Basic	$ 1.81	$ 1.44	$ 1.53
Diluted	$ 1.79	$ 1.42	$ 1.52

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
(Amounts in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Net income	**$ 536,935**	**$ 411,197**	**$ 412,767**
Other comprehensive (loss) income (net change by component):			
Cash flow hedges	—	(25)	51
Available-for-sale securities	(2,519)	(4,374)	12,960
Foreign currency translation	(5,209)	(6,865)	20,775
Other comprehensive (loss) income	(7,728)	(11,264)	33,786
Comprehensive income	**529,207**	**399,933**	**446,553**
Less: Comprehensive income attributable to non-controlling interests	(27,271)	(25,367)	(11,997)
Comprehensive income attributable to Starwood Property Trust, Inc.	**$ 501,936**	**$ 374,566**	**$ 434,556**

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Equity
(Amounts in thousands, except share data)

	Common stock		Additional	Treasury Stock		Accumulated	Accumulated Other	Total Starwood Property Trust, Inc.	Non-	Total
	Shares	Par Value	Paid-In Capital	Shares	Amount	Deficit	Comprehensive Income	Stockholders' Equity	Controlling Interests	Equity
Balance, January 1, 2017	**263,893,806**	**$ 2,639**	**$ 4,691,180**	**4,606,885**	**$ (92,104)**	**$ (115,579)**	**$ 36,138**	**$ 4,522,274**	**$ 37,799**	**$ 4,560,073**
Proceeds from DRIP Plan	31,626	—	702	—	—	—	—	702	—	702
Equity offering costs	—	—	(15)	—	—	—	—	(15)	—	(15)
Equity component of 2023 Convertible Senior Notes issuance	—	—	3,755	—	—	—	—	3,755	—	3,755
Equity component of 2018 Convertible Senior Notes repurchase	—	—	(18,105)	—	—	—	—	(18,105)	—	(18,105)
Share-based compensation	1,178,565	12	18,139	—	—	—	—	18,151	—	18,151
Manager incentive fee paid in stock	879,312	9	19,590	—	—	—	—	19,599	—	19,599
Net income	—	—	—	—	—	400,770	—	400,770	11,997	412,767
Dividends declared, $1.92 per share	—	—	—	—	—	(502,503)	—	(502,503)	—	(502,503)
Other comprehensive income, net	—	—	—	—	—	—	33,786	33,786	—	33,786
VIE non-controlling interests	—	—	—	—	—	—	—	—	1,718	1,718
Contributions from non-controlling interests	—	—	—	—	—	—	—	—	145,283	145,283
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(96,010)	(96,010)
Balance, December 31, 2017	**265,983,309**	**$ 2,660**	**$ 4,715,246**	**4,606,885**	**$ (92,104)**	**$ (217,312)**	**$ 69,924**	**$ 4,478,414**	**$ 100,787**	**$ 4,579,201**
Proceeds from DRIP Plan	28,406	—	608	—	—	—	—	608	—	608
Equity offering costs	—	—	(22)	—	—	—	—	(22)	—	(22)
Conversion of 2019 Convertible Notes	12,407,081	124	238,760	—	—	—	—	238,884	—	238,884
Common stock repurchased	—	—	—	573,255	(12,090)	—	—	(12,090)	—	(12,090)
Share-based compensation	1,421,979	14	22,744	—	—	—	—	22,758	—	22,758
Manager incentive fee paid in stock	998,917	10	20,782	—	—	—	—	20,792	—	20,792
Net income	—	—	—	—	—	385,830	—	385,830	25,367	411,197
Dividends declared, $1.92 per share	—	—	—	—	—	(517,516)	—	(517,516)	—	(517,516)
Other comprehensive loss, net	—	—	—	—	—	—	(11,264)	(11,264)	—	(11,264)
VIE non-controlling interests	—	—	—	—	—	—	—	—	(5,669)	(5,669)
Contributions from non-controlling interests	—	—	—	—	—	—	—	—	430,033	430,033
Distributions to non-controlling interests	—	—	(2,962)	—	—	—	—	(2,962)	(253,442)	(256,404)
Sale of controlling interest in majority owned property asset	—	—	—	—	—	—	—	—	(319)	(319)
Balance, December 31, 2018	**280,839,692**	**$ 2,808**	**$ 4,995,156**	**5,180,140**	**$ (104,194)**	**$ (348,998)**	**$ 58,660**	**$ 4,603,432**	**$ 296,757**	**$ 4,900,189**
Proceeds from DRIP Plan	33,454	—	767	—	—	—	—	767	—	767
Redemption of Class A Units for common stock	974,176	10	21,060	—	—	—	—	21,070	(21,070)	—
Equity offering costs	—	—	(27)	—	—	—	—	(27)	—	(27)
Conversion of 2019 Convertible Notes	3,611,918	36	67,526	—	—	—	—	67,562	—	67,562
Share-based compensation	1,387,346	15	36,140	—	—	—	—	36,155	—	36,155
Manager incentive fee paid in stock	534,305	5	11,910	—	—	—	—	11,915	—	11,915
Net income	—	—	—	—	—	509,664	—	509,664	27,271	536,935
Dividends declared, $1.92 per share	—	—	—	—	—	(542,385)	—	(542,385)	—	(542,385)
Other comprehensive loss, net	—	—	—	—	—	—	(7,728)	(7,728)	—	(7,728)
VIE non-controlling interests	—	—	—	—	—	—	—	—	(2,808)	(2,808)
Contributions from non-controlling interests	—	—	—	—	—	—	—	—	186,397	186,397
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(49,958)	(49,958)
Balance, December 31, 2019	**287,380,891**	**$ 2,874**	**$ 5,132,532**	**5,180,140**	**$ (104,194)**	**$ (381,719)**	**$ 50,932**	**$ 4,700,425**	**$ 436,589**	**$ 5,137,014**

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(Amounts in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities:			
Net income	$ 536,935	$ 411,197	$ 412,767
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Amortization of deferred financing costs, premiums and discounts on secured borrowings	36,088	27,832	19,298
Amortization of discounts and deferred financing costs on unsecured senior notes	7,760	11,785	21,531
Accretion of net discount on investment securities	(11,791)	(15,253)	(15,208)
Accretion of net deferred loan fees and discounts	(35,387)	(38,099)	(39,084)
Share-based compensation	36,155	22,758	18,151
Share-based component of incentive fees	11,915	20,792	19,599
Change in fair value of investment securities	(833)	(10,345)	3,811
Change in fair value of consolidated VIEs	(67,798)	(17,408)	(69,483)
Change in fair value of servicing rights	3,640	10,202	24,323
Change in fair value of loans held-for-sale	(71,601)	(40,522)	(66,987)
Change in fair value of derivatives	11,441	(30,828)	68,309
Foreign currency (gain) loss, net	(17,582)	9,158	(33,439)
Gain on sale of investments and other assets	(188,028)	(59,044)	(20,499)
Impairment charges on properties and related intangibles	1,494	1,869	1,146
Loan loss provision, net	7,126	34,821	(5,458)
Depreciation and amortization	113,394	130,838	90,896
Loss (earnings) from unconsolidated entities	101,354	(10,540)	(30,505)
Distributions of earnings from unconsolidated entities	11,631	5,917	67,542
Loss on extinguishment of debt	19,270	5,808	5,915
Origination and purchase of loans held-for-sale, net of principal collections	(3,543,503)	(2,105,232)	(2,199,390)
Proceeds from sale of loans held-for-sale	3,177,640	2,246,989	1,582,050
Changes in operating assets and liabilities:			
Related-party payable, net	(3,118)	1,674	4,551
Accrued and capitalized interest receivable, less purchased interest	(114,156)	(62,261)	(94,077)
Other assets	(29,787)	8,207	(35,300)
Accounts payable, accrued expenses and other liabilities	(5,458)	25,155	22,702
Net cash (used in) provided by operating activities	**(13,199)**	**585,470**	**(246,839)**
Cash Flows from Investing Activities:			
Origination and purchase of loans held-for-investment	(5,473,399)	(4,428,891)	(3,234,987)
Proceeds from principal collections on loans	3,132,368	3,057,430	2,562,515
Proceeds from loans sold	1,141,411	835,849	52,609
Purchase of investment securities	(98,258)	(492,400)	(98,394)
Proceeds from sales of investment securities	7,326	16,427	11,579
Proceeds from principal collections on investment securities	205,660	382,924	232,793
Infrastructure lending business combination	—	(2,158,553)	—
Real estate business combinations, net of cash and restricted cash acquired	—	—	(17,639)
Proceeds from sales of real estate and related businesses, net of cash transferred	343,896	311,874	55,739
Purchases and additions to properties and other assets	(30,865)	(54,772)	(573,930)
Investment in unconsolidated entities	(18,055)	(3,100)	(32,186)
Distribution of capital from unconsolidated entities	18,127	21,461	14,252
Payments for purchase or termination of derivatives	(42,835)	(29,581)	(40,518)
Proceeds from termination of derivatives	38,756	20,523	31,456
Return of investment basis in purchased derivative asset	—	—	151
Net cash used in investing activities	**(775,868)**	**(2,520,809)**	**(1,036,560)**

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
(Amounts in thousands)

	For the Year Ended December 31, 2019	2018	2017
Cash Flows from Financing Activities:			
Proceeds from borrowings	$ 10,167,339	$ 9,412,715	$ 6,273,600
Principal repayments on and repurchases of borrowings	(8,671,085)	(6,360,610)	(4,586,509)
Payment of deferred financing costs	(72,438)	(67,218)	(22,703)
Proceeds from common stock issuances	767	608	702
Payment of equity offering costs	(27)	(22)	(647)
Payment of dividends	(538,424)	(509,966)	(501,663)
Contributions from non-controlling interests	183,520	13,407	106
Distributions to non-controlling interests	(49,958)	(256,404)	(96,010)
Purchase of treasury stock	—	(12,090)	—
Issuance of debt of consolidated VIEs	184,540	102,474	25,605
Repayment of debt of consolidated VIEs	(373,155)	(410,453)	(137,208)
Distributions of cash from consolidated VIEs	45,642	92,283	92,411
Net cash provided by financing activities	**876,721**	**2,004,724**	**1,047,684**
Net increase (decrease) in cash, cash equivalents and restricted cash	87,654	69,385	(235,715)
Cash, cash equivalents and restricted cash, beginning of year	487,865	418,273	650,755
Effect of exchange rate changes on cash	(1,488)	207	3,233
Cash, cash equivalents and restricted cash, end of year	$ 574,031	$ 487,865	$ 418,273
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 481,483	$ 337,605	$ 250,690
Income taxes paid	11,284	10,900	20,767
Supplemental disclosure of non-cash investing and financing activities:			
Dividends declared, but not yet paid	$ 136,715	$ 133,237	$ 125,844
Consolidation of VIEs (VIE asset/liability additions)	10,368,817	9,885,200	3,925,370
Deconsolidation of VIEs (VIE asset/liability reductions)	377,071	1,649,485	2,480,125
Assets of Ireland real estate subsidiary sold, net of cash	440,966	—	—
Liabilities of Ireland real estate subsidiary sold	360,049	—	—
Reclassification of residential loans held-for-sale to held-for-investment	340,948	—	—
Settlement of 2019 Convertible Notes in shares	75,525	271,243	—
Settlement of loans transferred as secured borrowings	74,692	—	35,000
Net assets acquired through foreclosure or conversion to equity interest	53,278	—	—
Loan principal collections temporarily held at master servicer	44,426	—	—
Redemption of Class A Units for common stock	21,070	—	—
Lease liabilities arising from obtaining right-of-use assets	9,626	—	—
Net assets acquired from consolidated VIEs	8,613	27,737	31,547
Contribution of Woodstar II Portfolio net assets from non-controlling interests	2,877	416,626	145,177
Fair value of assets acquired, net of cash and restricted cash	—	2,167,652	18,507
Fair value of liabilities assumed	—	9,099	760

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2019

1. Business and Organization

Starwood Property Trust, Inc. ("STWD" and, together with its subsidiaries, "we" or the "Company") is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering. We are focused primarily on originating, acquiring, financing and managing mortgage loans and other real estate investments in both the United States ("U.S.") and Europe. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have four reportable business segments as of December 31, 2019 and we refer to the investments within these segments as our target assets:

- Real estate commercial and residential lending (the "Commercial and Residential Lending Segment")—engages primarily in originating, acquiring, financing and managing commercial and residential first mortgages, subordinated mortgages, mezzanine loans, preferred equity, commercial mortgage-backed securities ("CMBS"), residential mortgage-backed securities ("RMBS") and other real estate and real estate-related debt investments in both the U.S. and Europe (including distressed or non-performing loans).

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

- Real estate property (the "Property Segment")—engages primarily in acquiring and managing equity interests in stabilized commercial real estate properties, including multifamily properties and commercial properties subject to net leases, that are held for investment.

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

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

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

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

2. Summary of Significant Accounting Policies

Balance Sheet Presentation of Securitization Variable Interest Entities

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

Because we often serve as the special servicer or servicing administrator of the trusts in which we invest, or we have the ability to remove and replace the special servicer without cause, consolidation of these structures is required pursuant to GAAP as outlined in detail below. This results in a consolidated balance sheet which presents the gross assets and liabilities of the VIEs. The assets and other instruments held by these VIEs are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the VIEs do not have any recourse to the general credit of any other consolidated entities, nor to us as the consolidator of these VIEs.

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

Refer to the segment data in Note 23 for a presentation of our business segments without consolidation of these VIEs.

Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements include our accounts and those of our consolidated subsidiaries and VIEs. Intercompany amounts have been eliminated in consolidation.

Entities not deemed to be VIEs are consolidated if we own a majority of the voting securities or interests or hold the general partnership interest, except in those instances in which the minority voting interest owner or limited partner can remove us as general partner without cause, dissolve the partnership without cause or effectively participate through substantive participative rights. Substantive participative rights include the ability to select, terminate and set compensation of the investee's management, if applicable, and the ability to participate in capital and operating decisions of the investee, including budgets, in the ordinary course of business.

We invest in entities with varying structures, many of which do not have voting securities or interests, such as general partnerships, limited partnerships, and limited liability companies. In many of these structures, control of the entity rests with the general partners or managing members, while other members hold passive interests. The general partner or managing member may hold anywhere from a relatively small percentage of the total financial interests to a majority of the financial interests. For entities not deemed to be VIEs, where we serve as the sole general partner or managing member, we are considered to have the controlling financial interest and therefore the entity is consolidated, regardless of our financial interest percentage, unless there are other limited partners or investing members that can remove us as general partner without cause, dissolve the partnership without cause or effectively participate through substantive participative rights. In those circumstances where we, as majority controlling interest owner, can be removed without cause or cannot cause the entity to take actions that are significant in the ordinary course of business, because such actions could be vetoed by the minority controlling interest owner, we do not consolidate the entity.

When we consolidate entities other than securitization VIEs, the third party ownership interests are reflected as non-controlling interests in consolidated subsidiaries, a separate component of equity, in our consolidated balance sheet. When we consolidate securitization VIEs, the third party ownership interests are reflected as VIE liabilities in our consolidated balance sheet because the beneficial interests payable to these third parties are legally issued in the form of debt. Our presentation of net income attributes earnings to controlling and non-controlling interests.

Variable Interest Entities

In addition to the securitization VIEs, we have financed a pool of our loans through a collateralized loan obligation ("CLO") which is considered a VIE. We also hold interests in certain other entities which are considered VIEs as the limited partners of those entities with equity at risk do not collectively possess (i) the right to remove the general partner or dissolve the partnership without cause or (ii) the right to participate in significant decisions made by the partnership.

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

To assess whether we have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, we consider all facts and circumstances, including our role in establishing the VIE and our ongoing rights and responsibilities. This assessment includes: (i) identifying the activities that most significantly impact the VIE's economic performance; and (ii) identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE. The right to remove the decision maker in a VIE must be exercisable without cause for the decision maker to not be deemed the party that has the power to direct the activities of a VIE.

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

Our purchased investment securities include unrated and non-investment grade rated securities issued by securitization trusts. In certain cases, we may contract to provide special servicing activities for these trusts, or, as holder of the controlling class, we may have the right to name and remove the special servicer for these trusts. In our role as special servicer, we provide services on defaulted loans within the trusts, such as foreclosure or work-out procedures, as permitted by the underlying contractual agreements. In exchange for these services, we receive a fee. These rights give us the ability to direct activities that could significantly impact the trust's economic performance. However, in those instances where an unrelated third party has the right to unilaterally remove us as special servicer without cause, we do not have the power to direct activities that most significantly impact the trust's economic performance. We evaluated all of our positions in such investments for consolidation.

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

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

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

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

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

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

REO assets generally represent a very small percentage of the overall asset pool of a trust. In new issue trusts there are no REO assets. We estimate that REO assets constitute approximately 1% of our consolidated securitization VIE assets, with the remaining 99% representing loans. However, it is important to note that the fair value of our securitization VIE assets is determined by reference to our securitization VIE liabilities as permitted under Accounting Standards Update ("ASU") 2014-13, *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*. In other words, our VIE liabilities are more reliably measurable than the VIE assets, resulting in our current measurement methodology which utilizes this value to determine the fair value of our securitization VIE assets as a whole. As a result, these percentages are not necessarily indicative of the relative fair values of each of these asset categories if the assets were to be valued individually.

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

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

Fair Value Option

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

We have elected the fair value option for certain eligible financial assets and liabilities of our consolidated securitization VIEs, residential loans held-for-investment, loans held-for-sale originated or acquired for future securitization and purchased CMBS issued by VIEs we could consolidate in the future. 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 residential mortgage loans held-for-investment were made in order to maintain consistency across all our residential mortgage loans. The fair value elections for mortgage loans held-for-sale were made due to the expected short-term holding period of these instruments.

Fair Value Measurements

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

As discussed above, we measure the assets and liabilities of consolidated securitization VIEs at fair value pursuant to our election of the fair value option. The securitization VIEs in which we invest are “static”; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the securitization VIEs, we maximize the use of observable inputs over unobservable inputs. Refer to Note 20 for further discussion regarding our fair value measurements.

Business Combinations

Under ASC 805, *Business Combinations*, the acquirer in a business combination must recognize, with certain exceptions, the fair values of assets acquired, liabilities assumed, and non-controlling interests when the acquisition constitutes a change in control of the acquired entity. As goodwill is calculated as a residual, all goodwill of the acquired business, not just the acquirer’s share, is recognized under this “full goodwill” approach. During the measurement period, a period which shall not exceed one year, we prospectively adjust the provisional amounts recognized to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized.

Effective with our early adoption of ASU 2017-01, *Business Combinations (Topic 805) – Clarifying the Definition of a Business*, in December 2017, we apply the asset acquisition provisions of ASC 805 in accounting for acquisitions of real estate with in-place leases where substantially all of the fair value of the assets acquired is concentrated in either a single identifiable asset or group of similar identifiable assets. This results in the acquired properties being recognized initially at their purchase price inclusive of acquisition costs, which are capitalized. All other acquisitions of real estate with in-place leases are accounted for in accordance with the business combination provisions of ASC 805. We also apply the asset acquisition provisions of ASC 805 for acquired real estate assets where a lease is entered into concurrently with the acquisition of the asset, such as in sale leaseback transactions.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and short-term investments. Short-term investments are comprised of highly liquid instruments with original maturities of three months or less. The Company maintains its cash and cash equivalents in multiple financial institutions and at times these balances exceed federally insurable limits.

Restricted Cash

Restricted cash includes cash and cash equivalents that are legally or contractually restricted as to withdrawal or usage and primarily includes (i) loan payments received by our Infrastructure Lending Segment which are restricted by our lender and periodically applied, in part, to the outstanding balance of the Infrastructure Lending debt facility, (ii) cash collateral associated with derivative financial instruments and (iii) funds held on behalf of borrowers and tenants.

Loans Held-for-Investment

Loans that are held for investment are carried at cost, net of unamortized acquisition premiums or discounts, loan fees and origination costs as applicable, unless the loans are deemed impaired or we have elected to apply the fair value option at purchase.

Loan Impairment

We evaluate each loan classified as held-for-investment not under the fair value option for impairment at least quarterly. Impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, we record an allowance through the provision for loan losses to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral.

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

Loans Held-For-Sale

Our loans that we intend to sell or liquidate in the short-term are classified as held-for-sale and are carried at the lower of amortized cost or fair value, unless we have elected to apply the fair value option at origination or purchase. With regards to our Investing and Servicing Segment's conduit business, we periodically enter into derivative financial instruments to hedge unpredictable changes in fair value of loans held-for-sale, including changes resulting from both interest rates and credit quality. Because these derivatives are not designated, changes in their fair value are recorded in earnings. In order to best reflect the results of the hedged loan portfolio in earnings, we have elected the fair value option for these loans. As a result, changes in the fair value of the loans are also recorded in earnings.

Investment Securities

We designate our debt investment securities as held-to-maturity, available-for-sale, or trading depending on our investment strategy and ability to hold such securities to maturity. Held-to-maturity debt securities where we have not elected to apply the fair value option are stated at cost plus any premiums or discounts, which are amortized or accreted through the consolidated statements of operations using the effective interest method. Debt securities we (i) do not hold for the purpose of selling in the near-term, or (ii) may dispose of prior to maturity, are classified as available-for-sale and are carried at fair value in the accompanying financial statements. Unrealized gains or losses on available-for-sale debt securities where we have not elected the fair value option are reported as a component of accumulated other comprehensive income (loss) ("AOCI") in stockholders' equity.

When the estimated fair value of a debt security for which we have not elected the fair value option is less than its amortized cost, we consider whether there is OTTI in the value of the security. An impairment is deemed an OTTI if (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovering our cost basis or (iii) we do not expect to recover the entire amortized cost basis of the security even if we do not intend to sell the security or do not believe it is more likely than not that we will be required to sell the security before recovering our cost basis. If the impairment is deemed to be an OTTI, the resulting accounting treatment depends on the factors causing the OTTI. If the OTTI has resulted from (i) our intention to sell the security, or (ii) our judgment that it is more likely than not that we will be required to sell the security before recovering our cost basis, an impairment loss is recognized in earnings equal to the entire difference between our amortized cost basis and fair value. Whereas, if the OTTI has resulted from our conclusion that we will not recover our cost basis even if we do not intend to sell the security or do not believe it is more likely than not that we will be required to sell the security before recovering our cost basis, only the credit loss portion of the impairment is recorded in earnings, and the portion of the loss related to other factors, such as changes in interest rates, continues to be recognized in AOCI. Following the recognition of an OTTI through earnings, a new cost basis is established for the security. Determining whether there is an OTTI may require us to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates.

Our only equity investment security is carried at fair value, with unrealized holding gains and losses recorded in earnings.

Properties Held-For-Investment

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

Properties Held-For-Sale

Properties and any associated intangible assets are presented within properties held-for-sale on our consolidated balance sheet when the sale of the property is considered probable, at which time we cease depreciation and amortization of the property and the associated intangibles. Held-for-sale properties are reported at the lower of their carrying value or fair value less costs to sell. There were no properties held-for-sale at December 31, 2019 or 2018.

Servicing Rights Intangibles

Our identifiable intangible assets include domestic special servicing rights for which we have elected to apply the fair value measurement method, which is necessary to conform to our election of the fair value option for measuring the assets and liabilities of the VIEs consolidated pursuant to ASC 810.

Lease Intangibles

In connection with our acquisition of properties, we recognize intangible lease assets and liabilities associated with certain noncancelable operating leases of the acquired properties. These intangible lease assets and liabilities include in-place lease intangible assets, favorable lease intangible assets and unfavorable lease liabilities. In-place lease intangible assets reflect the acquired benefit of purchasing properties with in-place leases and are measured based on estimates of direct costs associated with leasing the property and lost rental income during projected lease-up and free rent periods, both of which are avoided due to the presence of in-place leases at the acquisition date. Favorable and unfavorable lease intangible assets and liabilities reflect the terms of in-place tenant leases being either favorable or unfavorable relative to market terms at the acquisition date. The estimated fair values of our favorable and unfavorable lease assets and liabilities at the respective acquisition dates represent the discounted cash flow differential between the contractual cash flows of such leases and the estimated cash flows that comparable leases at market terms would generate. Our intangible lease assets and liabilities are recognized within intangible assets and other liabilities, respectively, in our consolidated balance sheets. Our in-place lease intangible assets are amortized to amortization expense while our favorable and unfavorable lease intangible assets and liabilities where we are the lessor are amortized to rental income. Favorable and unfavorable lease intangible assets and liabilities where we are the lessee are amortized to costs of rental operations, except in the case of our unfavorable lease liability associated with office space occupied by the Company, which is amortized to general and administrative expense. Both our favorable and unfavorable lease intangible assets and liabilities are amortized over the remaining noncancelable term of the respective leases on a straight-line basis.

Leases

On January 1, 2019, ASC 842*, Leases*, became effective for the Company. ASC 842 establishes a right-of-use model for lessee accounting which results in the recognition of most leased assets and lease liabilities on the balance sheet of the lessee. Lessor accounting was not significantly affected by this ASC. We elected to apply the provisions of ASC 842 as of January 1, 2019 and not to retrospectively adjust prior periods presented. Such application did not result in any cumulative-effect adjustment as of January 1, 2019. We elected the “package of practical expedients” for transition purposes, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs for leases that commenced prior to January 1, 2019. We also elected not to apply the recognition provisions of ASC 842 to short-term leases, which have original lease terms of 12 months or less. As a lessor, we elected not to separate nonlease components, such as reimbursements from tenants for common area maintenance (“CAM”), from lease components for all classes of underlying assets, and continue to recognize such nonlease components ratably in rental income. We also elected to continue to exclude from rental income all sales, use and other similar taxes collected from lessees. As required by ASC 842, we no longer record as revenues and expenses lessor costs (such as property taxes) paid directly by the lessees. The application of ASC 842 has had no material effect on our consolidated financial statements, as all of our leases, as both lessor and lessee, are currently classified as operating leases, which are subject to essentially the same straight-line revenue and expense recognition as in the past. As a lessee, our only significant long-term lease as of January 1, 2019 resulted in the recognition of a \$12.0 million lease liability and corresponding right-of-use asset, which are classified within “Accounts payable, accrued expenses and other liabilities” and “Other assets”, respectively, in our consolidated balance sheet as of December 31, 2019.

Investment in Unconsolidated Entities

We own non-controlling equity interests in various privately-held partnerships and limited liability companies. Unless we elect the fair value option under ASC 825, we use the fair value practicability exception described below to account for investments in which our interest is so minor that we have virtually no influence over the underlying investees. We use the equity method to account for all other non-controlling interests in partnerships and limited liability companies. Equity method investments are initially recorded at cost and subsequently adjusted for our share of income or loss, as well as contributions made or distributions received.

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

Our equity investments within the scope of this ASU are limited to our other equity investments set forth in Note 8, with the exception of our FHLB stock which is outside the scope of this ASU, and to our marketable equity security discussed in Note 6 for which we had previously elected the fair value option. Our other equity investments within the scope of this ASU do not have readily determinable fair values. Therefore, we have elected the practicability exception whereby we measure these investments at cost, less impairment, plus or minus observable price changes from orderly transactions of identical or similar investments of the same issuer.

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

We continue to review our equity method and other investments not subject to this election for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods, estimated fair values of underlying assets and available information at the time the analyses are prepared.

Goodwill

Goodwill is not amortized, but rather tested for impairment annually or more frequently if events or changes in circumstances indicate potential impairment. Goodwill at December 31, 2019 represents the excess of the consideration paid over the fair value of net assets acquired in connection with the acquisitions of LNR Property LLC ("LNR") in April 2013 and the Infrastructure Lending Segment in September 2018 and October 2018.

In testing goodwill for impairment, we follow ASC 350, *Intangibles—Goodwill and Other*, which permits a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill. If the qualitative assessment determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill, then no impairment is determined to exist for the reporting unit. However, if the qualitative assessment determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value including goodwill, or we choose not to perform the qualitative assessment, then we compare the fair value of that reporting unit with its carrying value, including goodwill. If the carrying value of a reporting unit exceeds its fair value, goodwill is considered impaired with the impairment loss equal to the amount by which the carrying value of the goodwill exceeds the implied fair value of that goodwill.

Derivative Instruments and Hedging Activities

We record all derivatives on our consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on whether we have elected to designate a derivative in a hedging relationship and have satisfied the criteria necessary to apply hedge accounting under GAAP. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We regularly enter into derivative contracts that are intended to economically hedge certain of our risks, even though the transactions may not qualify for, or we may not elect to pursue, hedge accounting. In such cases, changes in the fair value of the derivatives are recorded in earnings.

Generally, our derivatives are subject to master netting arrangements, though we elect to present all derivative assets and liabilities on a gross basis within our consolidated balance sheets.

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 our convertible senior notes (the "Convertible Notes") have been reflected within additional paid-in capital in our consolidated balance sheets. The resulting debt discount is being amortized over the period during which the convertible senior notes are expected to be outstanding (the maturity date) as additional non-cash interest expense.

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

Revenue Recognition

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

Interest Income

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

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

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

For the majority of our available-for-sale RMBS, which have been purchased at a discount to par value, we do not expect to collect all amounts contractually due at the time we acquired the securities. Accordingly, we expect that a portion of the purchase discount will not be recognized as interest income, which is referred to as non-accretable difference. This amount of non-accretable difference may change over time based on the actual performance of these securities, their underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a credit deteriorated security is more favorable than forecasted, we will generally accrete more credit discount into interest income than initially or previously expected. These adjustments are made prospectively beginning in the period subsequent to the determination that a favorable change in performance is projected. Conversely, if the performance of a credit deteriorated security is less favorable than forecasted, an OTTI may be taken, and the amount of discount accreted into income will generally be less than previously expected.

Upon the sale of loans or securities which are not accounted for pursuant to the fair value option, the excess (or deficiency) of net proceeds over the net carrying value of such loans or securities is recognized as a realized gain (loss).

Servicing Fees

We typically seek to be the special servicer on CMBS transactions in which we invest. When we are appointed to serve in this capacity, we earn special servicing fees from the related activities performed, which consist primarily of overseeing the workout of under-performing and non-performing loans underlying the CMBS transactions. These fees are recognized in income in the period in which the services are performed and the revenue recognition criteria have been met.

Rental Income

Rental income is recognized when earned from tenants. For leases that provide rent concessions or fixed escalations over the lease term, rental income is recognized on a straight-line basis over the noncancelable term of the lease. In net lease arrangements, costs reimbursable from tenants are recognized in rental income in the period in which the related expenses are incurred as we are generally the primary obligor with respect to purchasing goods and services for property operations. In instances where the tenant is responsible for property maintenance and repairs and contracts and settles such costs directly with third party service providers, we do not reflect those expenses in our consolidated statement of operations as the tenant is the primary obligor.

Securitizations, Sales and Financing Arrangements

We periodically sell our financial assets, such as commercial mortgage loans, residential mortgage loans, CMBS, RMBS and other assets. In connection with these transactions, we may retain or acquire senior or subordinated interests in the related assets. Gains and losses on such transactions are recognized in accordance with ASC 860, *Transfers and Servicing*, which is based on a financial components approach that focuses on control. Under this approach, after a transfer of financial assets that meets the criteria for treatment as a sale—legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transferred control—an entity recognizes the financial assets it retains and any liabilities it has incurred, derecognizes the financial assets it has sold, and derecognizes liabilities when extinguished. We determine the gain or loss on sale of the assets by allocating the carrying value of the sold asset between the sold asset and the interests retained based on their relative fair values, as applicable. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the sold asset. If the sold asset is being accounted for pursuant to the fair value option, there is no gain or loss.

Deferred Financing Costs

Costs incurred in connection with debt issuance are capitalized and amortized to interest expense over the terms of the respective debt agreements. Such costs are presented as a direct deduction from the carrying value of the related debt liability.

Acquisition and Investment Pursuit Costs

Costs incurred in connection with acquisitions of investments, loans and businesses, as well as in pursuing unsuccessful acquisitions and investments, are recorded within acquisition and investment pursuit costs in our consolidated statements of operations when incurred. Costs incurred in connection with acquisitions of real estate not accounted for as business combinations are capitalized within the purchase price. These costs reflect services performed by third parties and principally include due diligence and legal services.

Share-Based Payments

The fair value of the restricted stock ("RSAs") or restricted stock units ("RSUs") granted is recorded as expense on a straight-line basis over the vesting period for the award, with an offsetting increase in stockholders' equity. For grants to employees and directors, the fair value is determined based upon the stock price on the grant date.

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

Foreign Currency Translation

Our assets and liabilities denominated in foreign currencies are translated into U.S. dollars using foreign currency exchange rates at the end of the reporting period. Income and expenses are translated at the average exchange rates for each reporting period. The effects of translating the assets, liabilities and income of our foreign investments held by entities with a U.S. dollar functional currency are included in foreign currency gain (loss) in the consolidated statements of operations or other comprehensive income ("OCI") for debt securities available-for-sale for which the fair value option has not been elected. The effects of translating the assets, liabilities and income of our foreign investments held by entities with functional currencies other than the U.S. dollar are included in OCI. Realized foreign currency gains and losses and changes in the value of foreign currency denominated monetary assets and liabilities are included in the determination of net income and are reported as foreign currency gain (loss) in our consolidated statements of operations.

Income Taxes

The Company has elected to be taxed as a REIT under the Code. The Company is subject to federal income taxation at corporate rates on its REIT taxable income, however, the Company is allowed a deduction for the amount of dividends paid to its stockholders in arriving at its REIT taxable income. As a result, distributed net income of the Company is subjected to taxation at the stockholder level only. The Company intends to continue operating in a manner that will permit it to maintain its qualification as a REIT for tax purposes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company evaluates the realizability of its deferred tax assets and recognizes a valuation allowance if, based on the available evidence, both positive and negative, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers, among other matters, estimates of expected future taxable income, nature of current and cumulative losses, existing and projected book/tax differences, tax planning strategies available, and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods.

We recognize tax positions in the financial statements only when it is more likely than not that, based on the technical merits of the tax position, the position will be sustained upon examination by the relevant taxing authority. A tax position is measured at the largest amount of benefit that will more likely than not be realized upon settlement. If, as a result of new events or information, a recognized tax position no longer is considered more likely than not to be sustained upon examination, a liability is established for the unrecognized benefit with a corresponding charge to income tax expense in our consolidated statement of operations. We report interest and penalties, if any, related to income tax matters as a component of income tax expense.

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 RSAs and RSUs, (ii) shares contingently issuable to our Manager, (iii) the conversion options associated with our outstanding Convertible Notes (see Notes 11 and 18), and (iv) non-controlling interests that are redeemable with our common stock (see Note 17). Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

Nearly all of the Company's unvested RSUs and RSAs contain rights to receive non-forfeitable dividends and thus are participating securities. In addition, the non-controlling interests that are redeemable with our common stock are considered participating securities because they earn a preferred return indexed to the dividend rate on our common stock (see Note 17). 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 years ended December 31, 2019, 2018 and 2017, the two-class method resulted in the most dilutive EPS calculation.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, CMBS, RMBS, loan investments and interest receivable. We may place cash investments in excess of insured amounts with high quality financial institutions. We perform an ongoing analysis of credit risk concentrations in our investment portfolio by evaluating exposure to various counterparties, markets, underlying property types, contract terms, tenant mix and other credit metrics.

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 June 16, 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments*, which mandates use of an "expected loss" credit model for estimating future credit losses of certain financial instruments instead of the "incurred loss" credit model that current GAAP requires. The "expected loss" model requires the consideration of possible credit losses over the life of an instrument as opposed to only estimating credit losses upon the occurrence of a discrete loss event in accordance with the current "incurred loss" methodology. This ASU is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019. We expect this ASU to result in our recognition of higher levels of potential credit losses earlier in the credit cycle. Though we are still in the process of finalizing the effect of this ASU, we expect to record an initial increase in our allowance for credit losses of between \$30 million and \$40 million as of January 1, 2020 through a cumulative-effect adjustment to accumulated deficit.

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

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

On October 31, 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810) – Targeted Improvements to Related Party Guidance for Variable Interest Entities*, which requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety for determining whether a decision-making fee is a variable interest. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2019. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

3. Acquisitions and Divestitures

Ireland Portfolio Sale

On December 23, 2019, we sold the U.S. entity which held the net assets related to our Ireland Portfolio. The properties within the entity were sold for a gross purchase price of €530.0 million. After certain adjustments, including a €20.7 million tax withholding which was treated as a reduction of purchase price, the net purchase price was €507.6 million, plus estimated net working capital. In connection with the transaction, the buyer assumed our existing third party debt totaling €316.3 million. Our basis in these assets was €394.7 million, net of €67.5 million of accumulated depreciation. The resulting gain, after selling costs, was €108.0 (or $119.7) million. This amount is included within gain on sale of investments and other assets in our consolidated statement of operations.

Upon receipt of the net proceeds from the sale, we unwound all of our foreign currency hedges related to this portfolio, which had a fair value of $16.6 million at the unwind date.

During the year ended December 31, 2017, we sold one office property within the Ireland Portfolio for $3.9 million, recognizing an immaterial gain on sale within gain on sale of investments and other assets in our consolidated statement of operations. There were no properties sold within the Ireland Portfolio during the year ended December 31, 2018.

Investing and Servicing Segment Property Portfolio

During the year ended December 31, 2019, our Investing and Servicing Segment acquired $8.6 million in net assets of a commercial real estate property from a CMBS trust for a gross purchase price of $8.8 million. This property, aggregated with the controlling interests in 15 remaining commercial real estate properties acquired from CMBS trusts prior to December 31, 2018 for an aggregate acquisition price of $227.3 million, comprise the Investing and Servicing Segment Property Portfolio (the "REIS Equity Portfolio"). When the properties are acquired from CMBS trusts that are consolidated as VIEs on our balance sheet, the acquisitions are reflected as repayment of debt of consolidated VIEs in our consolidated statements of cash flows.

During the year ended December 31, 2018, our Investing and Servicing Segment acquired $52.7 million in net assets of three commercial real estate properties from CMBS trusts for a gross purchase price of $53.1 million. During the year ended December 31, 2017, our Investing and Servicing Segment acquired the net equity of three commercial real estate properties from CMBS trusts for $48.7 million. We applied the business combination provisions of ASC 805 in accounting for the acquisitions in 2017 since they occurred prior to our adoption of ASU 2017-01 in December 2017, whereas we applied the asset acquisition provisions of ASC 805 for the acquisitions in 2018 and 2019.

During the year ended December 31, 2019, we sold four properties within the Investing and Servicing Segment for $145.9 million. In connection with these sales, we recognized a total gain of $59.7 million within gain on sale of investments and other assets in our consolidated statements of operations, of which $5.3 million was attributable to non-controlling interests. During the year ended December 31, 2018, we sold nine properties within the Investing and Servicing Segment for $77.9 million. In connection with these sales, we recognized a total gain of $26.6 million within gain on sale of investments and other assets in our consolidated statements of operations, of which $5.1 million was attributable to non-controlling interests. One of these properties was acquired by a third party which already held a $0.3 million non-controlling interest in the property. During the year ended December 31, 2017, we sold five properties within the Investing and Servicing Segment for $52.4 million. In connection with these sales, we recognized a total gain of $19.8 million within gain on sale of investments and other assets in our consolidated statements of operations, of which $3.3 million was attributable to non-controlling interests.

Infrastructure Lending Segment

On September 19, 2018, we acquired the project finance origination, underwriting and capital markets business of GE Capital Global Holdings, LLC ("GE Capital") for approximately $2.0 billion (the "Infrastructure Lending Segment") and on October 15, 2018, we acquired two additional senior secured project finance loans from GE Capital for $147.1 million. In total, the business included $2.1 billion of funded senior secured project finance loans and investment securities and $466.3 million of unfunded lending commitments (the "Infrastructure Lending Portfolio") which are secured primarily by natural gas and renewable power facilities. We utilized $1.7 billion in new financing in order to fund the acquisition.

As of the acquisition dates, the Infrastructure Lending Portfolio was 97% floating rate with 74% of the collateral located in the U.S., 12% in Mexico, 5% in the United Kingdom and the remaining collateral dispersed through the Middle East, Ireland, Australia, Canada and Spain. The loans were predominantly denominated in U.S. Dollars ("USD") and backed by long term power purchase agreements primarily with investment grade counterparties. The Company hired a team of professionals from GE Capital's project finance division in connection with the acquisition to manage and expand the Infrastructure Lending Portfolio.

Goodwill of $119.4 million was recognized in connection with the Infrastructure Lending Segment acquisition as the consideration paid exceeded the fair value of the net assets acquired.

We applied the provisions of ASC 805, *Business Combinations,* in accounting for our acquisition of the Infrastructure Lending Segment. In doing so, we recorded all identifiable assets acquired and liabilities assumed at fair value as of the respective acquisition dates.

Woodstar II Portfolio

During the year ended December 31, 2018, we acquired the final 19 properties of the 27 affordable housing communities comprising our "Woodstar II Portfolio". The Woodstar II Portfolio in its entirety is comprised of 6,109 units concentrated primarily in Central and South Florida and is 100% occupied.

The 19 affordable housing communities acquired during the year ended December 31, 2018 consist of 4,369 units and were acquired for $438.1 million, including contingent consideration of $29.2 million (the "2018 Closing"). The properties acquired in the 2018 Closing were recognized initially at the purchase price of $408.9 million plus capitalized acquisition costs of $4.1 million. Government sponsored mortgage debt of $27.0 million with weighted average fixed annual interest rates of 3.06% and remaining weighted average terms of 27.5 years was assumed at closing. We financed a portion of the 2018 Closing utilizing new 10-year mortgage debt totaling $300.9 million with weighted average fixed annual interest rates of 3.82%.

In December 2017, we acquired eight of the affordable housing communities (the "2017 Closing"), which include 1,740 units, for $156.2 million, including contingent consideration of $10.8 million. We financed the 2017 Closing utilizing 10-year mortgage debt totaling $116.7 million with a fixed 3.81% interest rate.

We effectuated the Woodstar II Portfolio acquisitions via a contribution of the properties by third parties (the "Contributors") to SPT Dolphin Intermediate LLC ("SPT Dolphin"), a newly-formed, wholly-owned subsidiary of the Company. In exchange for the contribution, the Contributors received cash, Class A units of SPT Dolphin (the "Class A Units") and rights to receive additional Class A Units if certain contingent events occur. The Class A unitholders have the right to redeem their Class A Units for consideration equal to the current share price of the Company's common stock on a one-for-one basis, with the consideration paid in either cash or the Company's common stock, at the determination of the Company.

The 2018 Closing resulted in the Contributors receiving cash of $225.8 million, 7,403,731 Class A Units and rights to receive an additional 1,411,642 Class A Units if certain contingent events occur. In aggregate, the 2018 Closing and 2017 Closing have resulted in the Contributors receiving cash of $310.7 million, 10,183,505 Class A Units and rights to receive an additional 1,910,563 Class A Units if certain contingent events occur. During the years ended December 31, 2019 and 2018, we issued 120,926 and 1,727,314, respectively, of the total 1,910,563 contingent Class A Units to the Contributors. During the year ended December 31, 2019, redemptions of 974,176 of the Class A Units were received and settled in common stock. No redemptions of Class A Units occurred during the year ended December 31, 2018. In consolidation, the issued Class A Units are reflected as non-controlling interests in consolidated subsidiaries on our consolidated balance sheets.

Since substantially all of the fair value of the properties acquired was concentrated in a group of similar identifiable assets, the Woodstar II Portfolio acquisitions were accounted for in accordance with the asset acquisition provisions of ASC 805.

Master Lease Portfolio

On September 25, 2017, we acquired 20 retail properties and three industrial properties (the "Master Lease Portfolio") for a purchase price of $553.3 million, inclusive of $3.7 million of related transaction costs. Concurrently with the acquisition, we leased the properties back to the seller under corporate guaranteed master net lease agreements with initial terms of 24.6 years and periodic rent escalations. These properties, which collectively comprised 5.3 million square feet, are geographically dispersed throughout the U.S., with more than 50% of the portfolio, by carrying value, located in Florida, Texas and Minnesota. We utilized $265.9 million in new financing in order to fund the acquisition. This sale leaseback transaction was accounted for as an asset acquisition.

During the year ended December 31, 2018, we sold four retail properties and three industrial properties within the Master Lease Portfolio for $235.4 million, recognizing a gain on sale of $28.5 million within gain on sale of investments and other assets in our consolidated statement of operations. There were no properties sold within the Master Lease Portfolio during the years ended December 31, 2019 and 2017.

Purchase Price Allocations of Business Combinations

We applied the business combination provisions of ASC 805 in accounting for our acquisition of the Infrastructure Lending Segment and, prior to our adoption of ASU 2017-01 in December 2017, the REIS Equity Portfolio. In doing so, we recorded all identifiable assets acquired and liabilities assumed at fair value as of the respective acquisition dates.

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

	2018	2017
Assets acquired:	Infrastructure Lending Segment	REIS Equity Portfolio
Loans held-for-investment	$ 1,649,630	$ —
Loans held-for-sale	319,710	—
Investment securities	65,060	—
Properties	—	38,770
Intangible assets	—	11,955
Accrued interest receivable	13,843	—
Other assets	—	85
Total identifiable assets acquired	2,048,243	50,810
Liabilities assumed:		
Accounts payable, accrued expenses and other liabilities	8,817	1,516
Derivative liabilities	282	—
Total liabilities assumed	9,099	1,516
Net assets acquired	$ 2,039,144	$ 49,294

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

	2018 Infrastructure Lending Segment
Purchase price	$ 2,158,553
Fair value of net assets acquired	2,039,144
Goodwill	$ 119,409

Pro Forma Operating Data (Unaudited)

The unaudited pro forma revenues and net income attributable to the Company for the years ended December 31, 2018 and 2017, assuming the Infrastructure Lending Segment was acquired on January 1, 2017, are as follows (amounts in thousands, except per share amounts):

	For the Year Ended December 31,	
(Unaudited)	2018	2017
Revenues	$ 1,182,892	$ 966,636
Net income attributable to STWD	392,505	395,150
Net income per share - Basic	1.47	1.51
Net income per share - Diluted	1.44	1.50

4. Restricted Cash

A summary of our restricted cash as of December 31, 2019 and 2018 is as follows (amounts in thousands):

	As of December 31,	
	2019	2018
Cash restricted by lender	$ 40,818	$ 175,659
Cash collateral for derivative financial instruments	37,912	37,245
Funds held on behalf of borrowers and tenants	11,903	12,838
Other restricted cash	5,010	22,299
	$ 95,643	$ 248,041

5. 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 for either. The following tables summarize our investments in mortgages and loans by subordination class as of December 31, 2019 and 2018 (dollars in thousands):

December 31, 2019	Carrying Value	Face Amount	Weighted Average Coupon (1)	Weighted Average Life ("WAL") (years)(2)
First mortgages (3)	$ 7,928,026	$ 7,962,788	5.8 %	2.0
First priority infrastructure loans	1,397,448	1,416,164	5.6 %	4.9
Subordinated mortgages (4)	75,724	77,055	8.8 %	3.4
Mezzanine loans (3)	484,164	484,408	11.0 %	1.9
Residential loans, fair value option (5)	671,572	654,925	6.1 %	3.8
Other	62,555	66,525	8.2 %	1.6
Total loans held-for-investment	10,619,489	10,661,865		
Loans held-for-sale, fair value option, residential (5)	605,384	587,144	6.2 %	3.9
Loans held-for-sale, fair value option, commercial	159,238	160,635	3.9 %	10.0
Loans held-for-sale, infrastructure	119,724	121,271	3.3 %	2.1
Total gross loans	11,503,835	11,530,915		
Loan loss allowance	(33,611)	—		
Total net loans	$ 11,470,224	$ 11,530,915		

December 31, 2018	Carrying Value	Face Amount	Weighted Average Coupon (1)	Weighted Average Life ("WAL") (years)(2)
First mortgages (3)	$ 6,607,117	$ 6,631,236	6.9 %	2.0
First priority infrastructure loans	1,456,779	1,465,828	5.7 %	4.5
Subordinated mortgages (4)	52,778	53,996	8.9 %	3.7
Mezzanine loans (3)	393,832	394,739	10.6 %	2.0
Other	61,001	64,658	8.2 %	2.5
Total loans held-for-investment	8,571,507	8,610,457		
Loans held-for-sale, fair value option, residential	623,660	609,571	6.3 %	6.6
Loans held-for-sale, commercial ($47,622 under fair value option)	94,117	94,916	5.4 %	6.2
Loans held-for-sale, infrastructure	469,775	486,909	3.5 %	0.3
Loans transferred as secured borrowings	74,346	74,692	7.1 %	1.3
Total gross loans	9,833,405	9,876,545		
Loan loss allowance	(39,151)	—		
Total net loans	$ 9,794,254	$ 9,876,545		

(1) Calculated using LIBOR or other applicable index rates as of December 31, 2019 and 2018 for variable rate loans.

(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 or acquisition.

(3) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan. The application of this methodology resulted in mezzanine loans with carrying values of $967.0 million and $1.0 billion being classified as first mortgages as of December 31, 2019 and 2018, respectively.

(4) 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.

(5) During the year ended December 31, 2019, $340.9 million of residential loans held-for-sale were reclassified into residential loans held-for-investment.

During the year ended December 31, 2018, the Company received distributions totaling $15.1 million from a profit participation in a mortgage loan that was repaid in 2016. The loan was secured by a retail and hospitality property located in the Times Square area of New York City. The profit participation is accounted for as a loan in accordance with the acquisition, development and construction accounting guidance within ASC 310-10, which resulted in distributions in excess of basis being recognized within interest income in our consolidated statements of operations. There were no distributions from profit participations received during the years ended December 31, 2019 and 2017.

As of December 31, 2019, our variable rate loans held-for-investment were as follows (dollars in thousands):

December 31, 2019	Carrying Value	Weighted-average Spread Above Index
Commercial loans	$ 8,030,499	4.2 %
First priority infrastructure loans	1,397,448	3.8 %
Total variable rate loans held-for-investment	$ 9,427,947	4.2 %

We regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral, as well as the financial and operating capability of the borrower. Specifically, the collateral'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 and/or (iii) the collateral'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 collateral. In addition, we consider the overall economic environment, real estate or industry 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.

The rating categories for commercial real estate loans 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%.

The risk ratings for loans subject to our rating system, which excludes loans held-for-sale, by class of loan were as follows as of December 31, 2019 and 2018 (dollars in thousands):

	Balance Sheet Classification							
	Loans Held-For-Investment					Loans Transferred As Secured Borrowings		
Risk Rating Category	First Mortgages	First Priority Infrastructure Loans	Subordinated Mortgages	Mezzanine Loans	Other		Total	% of Total Loans
December 31, 2019								
1	$ 503	$ —	$ —	$ —	$ 23,550	$ —	$ 24,053	0.2 %
2	4,186,776	—	37,980	120,372	31,178	—	4,376,306	38.0 %
3	3,509,601	—	25,767	363,792	—	—	3,899,160	33.9 %
4	40,436	—	—	—	—	—	40,436	0.4 %
5	59,116	—	—	—	—	—	59,116	0.5 %
N/A	131,594 (1)	1,397,448 (2)	11,977 (1)	—	7,827 (1)	—	1,548,846	13.5 %
	$ 7,928,026	$ 1,397,448	$ 75,724	$ 484,164	$ 62,555	$ —	9,947,917	
Residential loans held-for-investment, fair value option							671,572	5.8 %
Loans held-for-sale							884,346	7.7 %
Total gross loans							$ 11,503,835	100.0 %
December 31, 2018								
1	$ 6,538	$ —	$ —	$ —	$ 23,767	$ —	$ 30,305	0.3 %
2	3,356,342	—	7,392	111,466	—	74,346	3,549,546	36.1 %
3	2,987,296	—	33,410	282,366	31,039	—	3,334,111	33.9 %
4	63,094	—	—	—	—	—	63,094	0.6 %
5	—	—	—	—	—	—	—	— %
N/A	193,847 (1)	1,456,779 (2)	11,976 (1)	—	6,195 (1)	—	1,668,797	17.0 %
	$ 6,607,117	$ 1,456,779	$ 52,778	$ 393,832	$ 61,001	$ 74,346	8,645,853	
Loans held-for-sale							1,187,552	12.1 %
Total gross loans							$ 9,833,405	100.0 %

(1) Principally represents loans individually evaluated for impairment in accordance with ASC 310-10.

(2) First priority infrastructure loans were not risk rated as the Company is in the process of developing a risk rating policy for these loans.

In accordance with our loan impairment policy, during the year ended December 31, 2018, we recorded impairment charges of $38.2 million. During the year ended December 31, 2019, we recorded an impairment charge of $3.3 million to reflect the estimated fair value of the underlying collateral for a past due infrastructure loan that was converted into an equity interest in November 2019, pursuant to a bankruptcy court ordered sale. Our recorded investment in the loan was $29.2 million ($36.2 million principal balance, net of a $7.0 million non-accretable difference). The $25.9 million carrying value, net of the $3.3 million allowance for impaired loan which we charged-off, was reclassified to investment in unconsolidated entities upon conversion into an equity interest (see Note 8).

During the year ended December 31, 2019, we also charged-off an allowance for impaired loans of $8.3 million relating to a first mortgage loan on a grocery distribution facility located in Montgomery, Alabama that we foreclosed on in March 2019 and obtained physical possession of the underlying collateral property. As of the foreclosure date, our carrying value of the loan totaled $9.0 million ($20.9 million unpaid principal balance net of an $8.3 million allowance for impaired loan and $3.6 million of unamortized discount). In April 2019, we foreclosed on a first mortgage loan on a grocery distribution facility located in Orlando, Florida and obtained physical possession of the underlying collateral property. As of the foreclosure date, the appraised value of the property exceeded the $18.5 million carrying value of the loan ($21.9 million unpaid principal and interest balance net of a $3.4 million unamortized discount, and no reserve for impaired loan).

As of December 31, 2019, we had allowances for impaired loans of $29.9 million. Of this amount, $21.6 million relates to a residential conversion project located in New York City, for which our recorded investment was as follows as of December 31, 2019: (i) $131.6 million first mortgage loan and contiguous mezzanine loans ($104.2 million unpaid principal balance, which does not reflect $38.4 million of accrued interest and $21.6 million allowance for impaired loan) and (ii) $7.8 million unsecured promissory note ($8.9 million unpaid principal balance and no reserve for impaired loan).

Also included in the allowance for impaired loans is $8.3 million related to two subordinated mortgages on department stores located in the Greater Chicago area. Our recorded investment in these loans totaled $12.2 million ($12.0 million unpaid principal balance and $8.3 million allowance for impaired loans) as of December 31, 2019.

We apply the cost recovery method of interest income recognition for these impaired loans. The average recorded investment in the impaired loans for the year ended December 31, 2019 was $172.8 million.

As of December 31, 2019, we held TDRs with unfunded commitments of $3.1 million. There were no TDRs for which interest income was recognized during the year ended December 31, 2019.

As of December 31, 2019, certain of the residential conversion project first mortgage and mezzanine loans with a recorded investment of $93.6 million and the department store loans discussed above were 90 days or greater past due, as were $7.4 million of residential loans. In accordance with our interest income recognition policy, these loans were placed on non-accrual status.

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,” plus (iii) allowance for infrastructure loans held-for-sale where amortized cost is in excess of fair value, plus (iv) impaired loan reserves, if any. The following table presents the activity in our allowance for loan losses (amounts in thousands):

	For the year ended December 31,		
	2019	2018	2017
Allowance for loan losses at January 1	$ 39,151	$ 4,330	$ 9,788
Provision for (reversal of) loan losses	3,812	(3,384)	(5,458)
Provision for impaired loans	3,314	38,205	—
Charge-offs	(12,666)	—	—
Recoveries	—	—	—
Allowance for loan losses at December 31	$ 33,611	$ 39,151	$ 4,330
Recorded investment in loans related to the allowance for loan loss	$ 291,768	$ 275,112	$ 170,941

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

	For the year ended December 31, 2019	2018	2017
Balance at January 1	$ 9,794,254	$ 7,382,641	$ 5,946,274
Acquisitions/originations/additional funding	9,094,714	6,723,144	5,500,539
Acquisition of Infrastructure Lending Portfolio	—	1,969,340	—
Capitalized interest (1)	110,632	63,047	74,339
Basis of loans sold (2)	(4,311,390)	(3,082,347)	(1,634,717)
Loan maturities/principal repayments	(3,304,838)	(3,272,666)	(2,658,522)
Discount accretion/premium amortization	35,387	38,099	39,084
Changes in fair value	71,601	40,522	66,987
Unrealized foreign currency translation gain (loss)	40,155	(32,341)	42,356
Loan loss provision, net	(7,126)	(34,821)	5,458
Loan foreclosures	(27,303)	—	—
Transfer to/from other asset classifications	(25,862)	(364)	843
Balance at December 31	$ 11,470,224	$ 9,794,254	$ 7,382,641

(1) Represents accrued interest income on loans whose terms do not require current payment of interest.

(2) See Note 12 for additional disclosure on these transactions.

6. Investment Securities

Investment securities were comprised of the following as of December 31, 2019 and 2018 (amounts in thousands):

	Carrying Value as of December 31, 2019	Carrying Value as of December 31, 2018
RMBS, available-for-sale	$ 189,576	$ 209,079
RMBS, fair value option (1)	147,034	87,879
CMBS, fair value option (1), (2)	1,295,363	1,157,508
Held-to-maturity ("HTM") debt securities, amortized cost	570,638	644,149
Equity security, fair value	12,664	11,893
Subtotal—Investment securities	2,215,275	2,110,508
VIE eliminations (1)	(1,405,037)	(1,204,040)
Total investment securities	$ 810,238	$ 906,468

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

(2) Includes $186.6 million and $8.4 million of non-controlling interests in the consolidated entities which hold certain of these CMBS as of December 31, 2019 and 2018, respectively.

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

	RMBS, available-for-sale	RMBS, fair value option	CMBS, fair value option	HTM Securities	Equity Security	Securitization VIEs (1)	Total
Year Ended December 31, 2019							
Purchases	$ —	$ 120,103	$ 238,213	$ 91,162	$ —	$ (351,220)	$ 98,258
Sales	—	41,501	150,365	—	—	(184,540)	7,326
Principal collections	26,929	16,500	40,490	167,383	—	(45,642)	205,660
Year Ended December 31, 2018							
Purchases	$ —	$ 90,982	$ 323,071	$ 463,810	$ —	$ (385,463)	$492,400
Acquisition of Infrastructure Lending Portfolio	—	—	—	65,060	—	—	65,060
Sales	13,264	—	105,637	—	—	(102,474)	16,427
Principal collections	34,763	1,439	114,545	327,207	—	(95,030)	382,924
Year Ended December 31, 2017							
Purchases	$ 7,433	$ —	$ 125,776	$ 79,163	$ —	$ (113,978)	$ 98,394
Sales	—	—	37,184	—	—	(25,605)	11,579
Principal collections	40,635	—	109,354	182,919	—	(100,115)	232,793

(1) Represents RMBS and CMBS, fair value option amounts eliminated due to our consolidation of securitization VIEs. These amounts are reflected as repayment of debt of consolidated VIEs in our consolidated statements of cash flows.

RMBS, Available-for-Sale

The Company classified all of its RMBS not eliminated in consolidation as available-for-sale as of December 31, 2019 and 2018. These RMBS are reported at fair value in the balance sheet with changes in fair value recorded in AOCI.

The tables below summarize various attributes of our investments in available-for-sale RMBS as of December 31, 2019 and 2018 (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**
December 31, 2019								
RMBS	$ 148,385	$ (9,805)	$ 138,580	$ (314)	$ 51,310	$ —	$ 50,996	$ 189,576
December 31, 2018								
RMBS	$ 165,461	$ (9,897)	$ 155,564	$ (31)	$ 53,546	$ —	$ 53,515	$ 209,079

	Weighted Average Coupon (1)	**Weighted Average Rating**	**WAL (Years) (2)**
December 31, 2019			
RMBS	3.1 %	BB-	5.6
December 31, 2018			
RMBS	3.7 %	CCC-	6.0

(1) Calculated using the December 31, 2019 and 2018 one-month LIBOR rate of 1.763% and 2.503%, respectively, for floating rate securities.

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

As of December 31, 2019, approximately $160.9 million, or 84.9%, of RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 1.24%. As of December 31, 2018, approximately $177.4 million, or 84.9%, of RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 1.22%. We purchased all of the RMBS at a discount, a portion of which 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 this accretable discount.

The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS as of December 31, 2019 and 2018 (amounts in thousands):

	December 31, 2019	**December 31, 2018**
Principal balance	$ 278,853	$ 309,497
Accretable yield	(56,108)	(54,779)
Non-accretable difference	(84,165)	(99,154)
Total discount	(140,273)	(153,933)
Amortized cost	$ 138,580	$ 155,564

The principal balance of credit deteriorated RMBS was $263.7 million and $290.8 million as of December 31, 2019 and 2018, respectively. Accretable yield related to these securities totaled $50.3 million and $49.5 million as of December 31, 2019 and 2018, respectively.

The following table discloses the changes to accretable yield and non-accretable difference for our RMBS during the years ended December 31, 2019 and 2018 (amounts in thousands):

	Accretable Yield	Non-Accretable Difference
Balance as of January 1, 2018	$ 55,712	$ 121,867
Accretion of discount	(10,932)	—
Principal write-downs, net	—	(3,682)
Sales	(9,032)	—
Transfer to/from non-accretable difference	19,031	(19,031)
Balance as of December 31, 2018	54,779	99,154
Accretion of discount	(9,945)	—
Principal write-downs, net	—	(3,715)
Transfer to/from non-accretable difference	11,274	(11,274)
Balance as of December 31, 2019	$ 56,108	$ 84,165

We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was $1.5 million, $1.8 million and $1.9 million for the years ended December 31, 2019, 2018 and 2017, respectively, recorded as management fees in the accompanying consolidated statements of operations.

During the year ended December 31, 2018, we sold RMBS for proceeds of $13.3 million and realized gross gains of $3.5 million using the specific identification cost method. There were no sales of RMBS during the years ended December 31, 2019 and 2017.

The following table presents the gross unrealized losses and estimated fair value of any available-for-sale securities that were in an unrealized loss position as of December 31, 2019 and 2018, and 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 December 31, 2019				
RMBS	$ —	$ 1,380	$ —	$ (314)
As of December 31, 2018				
RMBS	$ 2,148	$ —	$ (31)	$ —

As of both December 31, 2019 and 2018, there was one security with unrealized losses reflected in the table above. After evaluating the security and recording adjustments for credit-related OTTI, 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 OTTI 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 and RMBS, Fair Value Option

As discussed in the "Fair Value Option" section of Note 2 herein, we elect the fair value option for certain CMBS and RMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of December 31, 2019, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, excluding the notional value of interest-only securities and before consolidation of securitization VIEs, were $1.3 billion and $3.0 billion, respectively. As of December 31, 2019, the fair value and unpaid principal balance of RMBS where we have elected the fair value option, excluding the notional value of interest-only securities and before consolidation of securitization VIEs, were $147.0 million and $87.4 million, respectively. The $1.4 billion total fair value balance of CMBS and RMBS represents our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value (all except $37.4 million at December 31, 2019) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option investment securities.

As of December 31, 2019, $118.2 million of our CMBS were variable rate and none of our RMBS were variable rate.

HTM Debt Securities, Amortized Cost

The table below summarizes unrealized gains and losses of our investments in HTM debt securities as of December 31, 2019 and 2018 (amounts in thousands):

	Net Carrying Amount (Amortized Cost)	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
December 31, 2019				
CMBS	$ 383,473	$ 946	$ (3,001)	$ 381,418
Preferred interests	142,012	1,148	(353)	142,807
Infrastructure bonds	45,153	—	(651)	44,502
Total	$ 570,638	$ 2,094	$ (4,005)	$ 568,727
December 31, 2018				
CMBS	$ 408,556	$ 2,435	$ (3,349)	$ 407,642
Preferred interests	174,825	703	—	175,528
Infrastructure bonds	60,768	178	(168)	60,778
Total	$ 644,149	$ 3,316	$ (3,517)	$ 643,948

The table below summarizes the maturities of our HTM debt securities by type as of December 31, 2019 (amounts in thousands):

	CMBS	Preferred Interests	Infrastructure Bonds	Total
Less than one year	$ 284,251	$ —	$ 5,371	$ 289,622
One to three years	99,222	141,659	—	240,881
Three to five years	—	353	—	353
Thereafter	—	—	39,782	39,782
Total	$ 383,473	$ 142,012	$ 45,153	$ 570,638

As of December 31, 2019 and 2018, $19.8 million and $21.2 million, respectively, of our infrastructure bonds with an aggregate principal balance of $32.8 million and $34.2 million, respectively, were originally acquired with deteriorated credit quality and had no accretable yield and an aggregate non-accretable difference of $13.0 million.

Equity Security, Fair Value Option

During 2012, we acquired 9,140,000 ordinary shares from a related-party 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. The fair value of the investment remeasured in USD was $12.7 million and $11.9 million as of December 31, 2019 and 2018, respectively. As of December 31, 2019, our shares represent an approximate 2% interest in SEREF.

7. Properties

Our properties are held within the following portfolios:

Woodstar I Portfolio

The Woodstar I Portfolio is comprised of 32 affordable housing communities with 8,948 units concentrated primarily in the Tampa, Orlando and West Palm Beach metropolitan areas. During the year ended December 31, 2015, we acquired 18 of the 32 affordable housing communities of the Woodstar I Portfolio with the final 14 communities acquired during the year ended December 31, 2016. The Woodstar I Portfolio includes total gross properties and lease intangibles of $629.5 million and federal, state and county sponsored financing and other debt of $478.2 million as of December 31, 2019.

Woodstar II Portfolio

The Woodstar II Portfolio is comprised of 27 affordable housing communities with 6,109 units concentrated primarily in Central and South Florida. The Woodstar II Portfolio includes total gross properties and lease intangibles of $605.5 million and debt of $436.9 million as of December 31, 2019. Refer to Note 3 for further discussion of the Woodstar II Portfolio.

Medical Office Portfolio

The Medical Office Portfolio is comprised of 34 medical office buildings acquired during the year ended December 31, 2016. These properties, which collectively comprise 1.9 million square feet, are geographically dispersed throughout the U.S. and primarily affiliated with major hospitals or located on or adjacent to major hospital campuses. The Medical Office Portfolio includes total gross properties and lease intangibles of $759.9 million and debt of $590.9 million as of December 31, 2019.

Master Lease Portfolio

The Master Lease Portfolio is comprised of 16 retail properties geographically dispersed throughout the U.S., with more than 50% of the portfolio, by carrying value, located in Florida, Texas and Minnesota. These properties, which were acquired in September 2017, collectively comprise 1.9 million square feet and were leased back to the seller under corporate guaranteed master net lease agreements with initial terms of 24.6 years and periodic rent escalations. The Master Lease Portfolio includes total gross properties of $343.8 million and debt of $192.4 million as of December 31, 2019. Refer to Note 3 for further discussion of the Master Lease Portfolio.

Investing and Servicing Segment Property Portfolio

The REIS Equity Portfolio is comprised of 16 commercial real estate properties and one equity interest in an unconsolidated commercial real estate property. The REIS Equity Portfolio includes total gross properties and lease intangibles of $277.8 million and debt of $187.9 million as of December 31, 2019. Refer to Note 3 for further discussion of the REIS Equity Portfolio.

The table below summarizes our properties held as of December 31, 2019 and December 31, 2018 (dollars in thousands):

	Depreciable Life	December 31, 2019	December 31, 2018
Property Segment			
Land and land improvements	0 – 15 years	$ 484,397	$ 648,972
Buildings and building improvements	5 – 45 years	1,687,756	1,980,283
Furniture & fixtures	3 – 7 years	52,567	46,048
Investing and Servicing Segment			
Land and land improvements	0 – 15 years	54,052	82,332
Buildings and building improvements	3 – 40 years	182,048	213,010
Furniture & fixtures	2 – 5 years	2,139	2,158
Commercial and Residential Lending Segment (1)			
Land and land improvements	0 – 7 years	11,386	—
Buildings and building improvements	10 – 23 years	16,285	—
Properties, cost		2,490,630	2,972,803
Less: accumulated depreciation		(224,190)	(187,913)
Properties, net		$ 2,266,440	$ 2,784,890

(1) Represents properties acquired through loan foreclosure. Refer to Note 5 for further discussion.

During the year ended December 31, 2019, we sold $407.2 million of net property assets relating to the Ireland Portfolio. Refer to Note 3 for further discussion. Also during the year ended December 31, 2019, we sold four operating properties within the REIS Equity Portfolio for $145.9 million. In connection with these REIS Equity Portfolio sales, we recognized a total gain of $59.7 million within gain on sale of investments and other assets in our consolidated statement of operations, of which $5.3 million was attributable to non-controlling interests.

During the years ended December 31, 2018 and 2017, we sold 16 and six operating properties, respectively, for $313.3 million and $56.4 million, respectively. In connection with these sales, we recognized a total gain of $55.1 million and $19.9 million, respectively, within gain on sale of investments and other assets in our consolidated statements of operations, of which $5.1 million and $3.3 million, respectively, was attributable to non-controlling interests. One of these properties was acquired by a third party which already held a $0.3 million non-controlling interest in the property.

Future rental payments due to us from tenants under existing non-cancellable operating leases for each of the next five years and thereafter are as follows (in thousands):

2020	$ 177,516
2021	95,524
2022	89,602
2023	79,177
2024	71,271
Thereafter	688,437
Total	$ 1,201,527

8. Investment in Unconsolidated Entities

The table below summarizes our investments in unconsolidated entities as of December 31, 2018 and 2017 (dollars in thousands):

	Participation / Ownership % (1)	Carrying value as of December 31, 2019	2018
Equity method:			
Retail Fund (see Note 16)	33%	$ —	$ 114,362
Equity interest in a natural gas power plant (2)	10%	25,862	—
Investor entity which owns equity in an online real estate company	50%	9,473	9,372
Equity interests in commercial real estate	50%	1,907	6,294
Equity interest in and advances to a residential mortgage originator (3)	N/A	12,002	9,082
Various	25% - 50%	8,339	6,984
		57,583	146,094
Other:			
Equity interest in a servicing and advisory business (4)	4%	—	6,207
Investment funds which own equity in a loan servicer and other real estate assets	4% - 6%	9,225	9,225
Various	0% - 2%	17,521	10,239
		26,746	25,671
		$ 84,329	$ 171,765

(1) None of these investments are publicly traded and therefore quoted market prices are not available.

(2) This 10% equity interest was obtained in November 2019 pursuant to a bankruptcy court ordered sale in satisfaction of a past due $36.2 million infrastructure loan which had a carrying value of $25.9 million and was secured by a gas-fired power generation facility. We report our interest in this investment on a three-month lag basis.

(3) As of December 31, 2019 and 2018, includes a $4.5 million and $2.0 million subordinated loan, respectively.

(4) During the year ended December 31, 2019, we received a capital distribution of $8.4 million and our equity interest was reduced to 4%.

We own a 33% equity interest in a fund that owns four regional shopping malls (the "Retail Fund"). The fund is an investment company which measures its assets at fair value on a recurring basis. We report our interest in the Retail Fund on a three-month lag basis at its liquidation value. During the three months ended March 31, 2019, we recorded a $44.9 million decrease to our investment due to unrealized decreases in the fair value of real estate properties reported to us by the Retail Fund.

In November 2019, the Retail Fund's secured financing matured and was not repaid. In light of these events, we commissioned independent appraisals of the underlying assets in order to estimate the fair value of our investment in the Retail Fund as of December 31, 2019. Based upon the results of these appraisals, we recorded an impairment charge of $71.9 million against the remainder of our investment as of December 31, 2019. These amounts were recognized within (loss) earnings from unconsolidated entities in our consolidated statement of operations during the year ended December 31, 2019. The impairment charge resulted in a $71.9 million difference between the zero carrying value of our investment and the underlying equity in the net assets of the Retail Fund.

As of December 31, 2019, the carrying value of our equity investment in a residential mortgage originator exceeded the underlying equity in net assets of such investee by $1.6 million. This difference is the result of the Company recording its investment in the investee at its acquisition date fair value, which included certain non-amortizing intangible assets not recognized by the investee. Should the Company determine these intangible assets held by the investee are impaired, the Company will recognize such impairment loss through earnings from unconsolidated entities in our consolidated statement of operations, otherwise, such difference between the carrying value of our equity investment in the residential mortgage originator and the underlying equity in the net assets of the residential mortgage originator will continue to exist.

During the year ended December 31, 2017, the investor entity which owns equity in an online real estate company sold approximately 88% of its interest in the online real estate company and we received a pre-tax cash distribution of $66.0 million from the investor entity related to the sale. We recognized $53.9 million of income from our investment in this investor entity as a result of the sale within earnings from unconsolidated entities in our consolidated statement of operations during the year ended December 31, 2017.

Other than our equity interests in the Retail Fund and the residential mortgage originator, there were no differences between the carrying value of our equity method investments and the underlying equity in the net assets of the investees as of December 31, 2019.

During the year ended December 31, 2019, we did not become aware of any observable price changes in our other investments accounted for under the fair value practicability exception discussed in Note 2 or any indicators of impairment.

9. Goodwill and Intangibles

Goodwill

Infrastructure Lending Segment

The Infrastructure Lending Segment's goodwill of $119.4 million at both December 31, 2019 and 2018 represents the excess of consideration transferred over the fair value of net assets acquired on September 19, 2018 and October 15, 2018. The goodwill recognized is attributable to value embedded in the acquired Infrastructure Lending Segment's lending platform and is fully tax deductible over 15 years.

As discussed in Note 2, goodwill is tested for impairment at least annually. Based on our quantitative assessment during the fourth quarter of 2019, we determined that the fair value of the Infrastructure Lending Segment reporting unit to which goodwill is attributed exceeded its carrying value including goodwill. Therefore, we concluded that the goodwill attributed to the Infrastructure Lending Segment was not impaired.

LNR Property LLC ("LNR")

The Investing and Servicing Segment's goodwill of $140.4 million at both December 31, 2019 and 2018 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 a 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. The tax deductible component of this goodwill as of April 19, 2013 was $149.9 million and is deductible over 15 years.

Based on our qualitative assessment during the fourth quarter of 2019, we determined that it is not more likely than not that the fair value of the Investing and Servicing Segment reporting unit to which goodwill is attributed is less than its carrying value including goodwill. Therefore, we concluded that the goodwill attributed to the Investing and Servicing Segment was not impaired.

Intangible Assets

Servicing Rights Intangibles

In connection with the LNR acquisition, we identified domestic servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. As of December 31, 2019 and

2018, the balance of the domestic servicing intangible was net of $26.2 million and $24.1 million, respectively, which was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs. Before VIE consolidation, as of December 31, 2019 and 2018, the domestic servicing intangible had a balance of $43.2 million and $44.6 million, respectively, which represents our economic interest in this asset.

Lease Intangibles

In connection with our acquisitions of commercial real estate, we recognized in-place lease intangible assets and favorable lease intangible assets associated with certain non-cancelable operating leases of the acquired properties.

The following table summarizes our intangible assets, which are comprised of servicing rights intangibles and lease intangibles, as of December 31, 2019 and 2018 (amounts in thousands):

	As of December 31, 2019			As of December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Domestic servicing rights, at fair value	$ 16,917	$ —	$ 16,917	$ 20,557	$ —	$ 20,557
In-place lease intangible assets	135,293	(84,383)	50,910	198,220	(100,873)	97,347
Favorable lease intangible assets	24,218	(6,345)	17,873	36,895	(9,766)	27,129
Total net intangible assets	$ 176,428	$ (90,728)	$ 85,700	$ 255,672	$ (110,639)	$ 145,033

The following table summarizes the activity within intangible assets for the years ended December 31, 2019 and 2018 (amounts in thousands):

	Domestic Servicing Rights	In-place Lease Intangible Assets	Favorable Lease Intangible Assets	Total
Balance as of January 1, 2018	$ 30,759	$ 122,465	$ 29,868	$ 183,092
Acquisition of Woodstar II Portfolio properties	—	10,792	—	10,792
Acquisition of additional REIS Equity Portfolio properties	—	7,342	2,687	10,029
Amortization	—	(39,830)	(4,046)	(43,876)
Sales	—	(1,791)	(1,036)	(2,827)
Foreign exchange loss	—	(1,270)	(344)	(1,614)
Impairment (1)	—	(361)	—	(361)
Changes in fair value due to changes in inputs and assumptions	(10,202)	—	—	(10,202)
Balance as of December 31, 2018	$ 20,557	$ 97,347	$ 27,129	$ 145,033
Sale of Ireland Portfolio	—	(20,271)	(5,654)	(25,925)
Sale of certain REIS Equity Portfolio properties	—	(5,208)	(13)	(5,221)
Acquisition of additional REIS Equity Portfolio property	—	277	—	277
Amortization	—	(19,297)	(3,256)	(22,553)
Foreign exchange loss	—	(806)	(221)	(1,027)
Impairment (1)	—	(1,132)	(112)	(1,244)
Changes in fair value due to changes in inputs and assumptions	(3,640)	—	—	(3,640)
Balance as of December 31, 2019	$ 16,917	$ 50,910	$ 17,873	$ 85,700

(1) Impairment of intangible lease assets is recognized within other expense in our consolidated statements of operations.

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

2020	$ 11,699
2021	9,674
2022	7,892
2023	6,136
2024	4,742
Thereafter	28,640
Total	$ 68,783

Lease Liabilities

In connection with our acquisition of certain properties within our Medical Office Portfolio, we recognized aggregate unfavorable lease liabilities of $4.8 million with a weighted average life of 9.7 years at acquisition. The liability balance was $2.3 million and $2.9 million as of December 31, 2019 and 2018, respectively.

In connection with our acquisition of LNR in 2013, we recognized an unfavorable lease liability of $15.3 million related to an assumed operating lease for our offices in Miami Beach, Florida, which expires in 2021. This liability is being amortized over the remaining 1.5 years of the underlying lease term at a rate of approximately $1.9 million per year. The liability balance was $2.8 million and $4.7 million as of December 31, 2019 and 2018, respectively.

10. Secured Borrowings

Secured Financing Agreements

The following table is a summary of our secured financing agreements in place as of December 31, 2019 and 2018 (dollars in thousands):

	Current Maturity	Extended Maturity (a)	Weighted Average Pricing	Pledged Asset Carrying Value	Maximum Facility Size	Outstanding Balance at December 31, 2019	Outstanding Balance at December 31, 2018
Repurchase Agreements:							
Commercial Loans	Aug 2020 to Jan 2024 (b)	Aug 2021 to Apr 2028 (b)	(c)	$ 5,327,761	$ 9,066,480 (d)	$ 3,640,620	$ 3,598,311
Residential Loans	Feb 2021	N/A	LIBOR + 2.10%	14,704	400,000	11,835	—
Infrastructure Loans	Feb 2020	Feb 2021	LIBOR + 1.75%	227,463	500,000	188,198	—
Conduit Loans	Feb 2020 to Jun 2022	Feb 2021 to Jun 2023	LIBOR + 2.10%	109,864	350,000	86,575	35,034
CMBS/RMBS	Sep 2020 to Dec 2029 (e)	Dec 2020 to June 2030 (e)	(f)	1,005,348	837,566	682,229	656,405
Total Repurchase Agreements				6,685,140	11,154,046	4,609,457	4,289,750
Other Secured Financing:							
Borrowing Base Facility	Apr 2022	Apr 2024	LIBOR + 2.25%	542,281	650,000 (g)	198,955	—
Infrastructure Acquisition Facility	Sep 2021	Sep 2022	(h)	754,443	771,534	603,642	1,551,148
Infrastructure Financing Facilities	Jul 2022 to Oct 2022	Oct 2024 to Jul 2027	LIBOR + 2.12%	524,197	1,000,000	428,206	—
Property Mortgages – Fixed rate	Nov 2024 to Aug 2052 (i)	N/A	3.94%	1,499,356	1,196,698	1,196,492	1,475,382
Property Mortgages - Variable rate	May 2020 to Jun 2026	N/A	LIBOR + 2.49%	783,460	714,810	696,503	645,344
Term Loan and Revolver	(j)	N/A	(j)	N/A (j)	519,000	399,000	300,000
FHLB	Feb 2021	N/A	(k)	1,262,250	2,000,000	867,870	500,000
Total Other Secured Financing				5,365,987	6,852,042	4,390,668	4,471,874
				$ 12,051,127	$ 18,006,088	9,000,125	8,761,624
Unamortized net discount						(8,347)	(963)
Unamortized deferred financing costs						(85,730)	(77,096)
						$ 8,906,048	$ 8,683,565

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

(b) For certain facilities, borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions.

(c) Certain facilities with an outstanding balance of $874.9 million as of December 31, 2019 are indexed to GBP LIBOR and EURIBOR. The remainder have a weighted average rate of LIBOR + 1.90%.

(d) The aggregate initial maximum facility size of $8.9 billion may be increased at our option, subject to certain conditions. This amount includes such upsizes.

(e) Certain facilities with an outstanding balance of $295.0 million as of December 31, 2019 carry a rolling 11-month or 12-month term which may reset monthly with the lender's consent. These facilities carry no maximum facility size.

(f) A facility with an outstanding balance of $184.7 million as of December 31, 2019 has a fixed annual interest rate of 3.49%. All other facilities are variable rate with a weighted average rate of LIBOR + 1.58%.

(g) The initial maximum facility size of $300.0 million may be increased to $650.0 million, subject to certain conditions.

(h) Consists of an annual interest rate of the applicable currency benchmark index + 1.50%. The spread increases 25 bps in each of the second and third years of the facility, which was entered into in September 2018.

(i) The weighted average maturity is 9.8 years as of December 31, 2019.

(j) Consists of: (i) a $399.0 million term loan facility that matures in July 2026 with an annual interest rate of LIBOR + 2.50%; and (ii) a $120.0 million revolving credit facility that matures in July 2024 with an annual interest rate of LIBOR + 3.00%. These facilities are secured by the equity interests in certain of our subsidiaries which totaled $3.1 billion as of December 31, 2019.

(k) FHLB financing with an outstanding balance of $438.5 million as of December 31, 2019 has a weighted average fixed annual interest rate of 2.01%. The remainder is variable rate with a weighted average rate of LIBOR + 0.28%.

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 2019, we entered into a $500.0 million Infrastructure Loans repurchase facility. The facility carries a one-year initial term with a one-year extension option and an annual interest rate of LIBOR + 1.75%.

In February 2019, we amended a Residential Loans repurchase facility to increase available borrowings by $200.0 million and extend the current maturity from June 2019 to February 2021.

In March 2019, we amended the FHLB facility to increase available borrowings from $500.0 million to $2.0 billion, subject to scheduled reductions to available capacity from September 2020 through maturity in February 2021.

In April 2019, we amended the Borrowing Base Facility to extend the current maturity from February 2021 to April 2022 with two one-year extension options.

In July 2019, we entered into the following credit agreements: (i) a $400.0 million term loan facility that carries a seven-year term and an annual interest rate of LIBOR + 2.50%; and (ii) a $100.0 million revolving credit facility that carries a five-year term and an annual interest rate of LIBOR + 3.00%. A portion of the net proceeds from the term loan was used to repay the amount outstanding under our previous term loan. We recognized a loss on extinguishment of debt of $1.5 million in our consolidated statement of operations in connection with the repayment of our previous term loan. In December 2019, the revolving credit facility was amended to increase available borrowings from $100.0 million to $120.0 million.

In July 2019, we entered into a $500.0 million Infrastructure Financing Facility to finance loans within the Infrastructure Lending Segment. The facility carries a three-year revolving period with two one-year extension options, one of which is at our discretion. The facility also carries a term-match to the respective collateral for an additional five-year term after the last day of the revolving period, with such term-match not to exceed the eight-year life of the facility. The facility has an annual interest rate between 2.00% to 2.85% over the applicable currency benchmark index rate, plus fees associated with the facility as well as each advance.

In October 2019, we entered into a $500.0 million Infrastructure Financing Facility to finance loans within the Infrastructure Lending Segment. The facility carries a three-year revolving period with two one-year extension options and an annual interest rate of LIBOR + 1.75%.

In October 2019, we entered into a $600.0 million first mortgage and mezzanine loan to refinance our existing Medical Office Portfolio debt of $494.3 million. The facility carries a two-year term with three one-year extension options and a weighted average floating rate of interest of LIBOR + 2.07%. Using proceeds from the unwind of our hedge on the existing debt, we swapped the interest to a fixed rate of 3.3%. We recognized loss on extinguishment of debt of $4.7 million in our consolidated statement of operations in connection with this refinancing.

In November 2019, we entered into mortgage loans with total borrowings of $84.5 million to finance our Woodstar I Portfolio. The loans carry six-year terms and weighted average fixed annual interest rates of 4.79%. A portion of the net proceeds from the mortgage loans was used to repay $9.2 million of outstanding government sponsored mortgage loans.

In December 2019, we amended a CMBS/RMBS repurchase facility to increase available borrowings from $150.0 million to $300.0 million.

During the year ended December 31, 2019, we entered into and amended several Commercial Loans repurchase facilities resulting in an aggregate upsize of $2.8 billion.

Our secured financing agreements contain certain financial tests and covenants. As of December 31, 2019, we were in compliance with all such covenants.

We seek to mitigate risks associated with our repurchase agreements by managing risk related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value. The margin call provisions under the majority of our repurchase facilities, consisting of 78% of these agreements, do not permit valuation adjustments based on capital markets activity. Instead, margin calls on these facilities are limited to collateral-specific credit marks. To monitor credit risk associated with the performance and value of our loans and investments, our asset management team regularly reviews our investment portfolios and is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary. For repurchase agreements containing margin call provisions for general capital markets activity, approximately 22% of these pertain to our loans held-for-sale, for which we manage credit risk through the purchase of credit index instruments. We further seek to manage risks associated with our repurchase agreements by matching the maturities and interest rate characteristics of our loans with the related repurchase agreement.

For the years ended December 31, 2019, 2018 and 2017, approximately $34.3 million, $27.0 million and $19.5 million, respectively, of amortization of deferred financing costs from secured financing agreements was included in interest expense on our consolidated statements of operations.

Collateralized Loan Obligations

In August 2019, we refinanced a pool of our commercial loans held-for-investment through a CLO, STWD 2019-FL1. On the closing date, the CLO issued $1.1 billion principal amount of notes, of which $936.4 million was purchased by third party investors. We retained $86.6 million of notes, along with preferred shares with a liquidation preference of $77.0 million. The CLO contains a reinvestment feature that, subject to certain eligibility criteria, allows us to contribute new loans or participation interests in loans to the CLO in exchange for cash. During the year ended December 31, 2019, we utilized the reinvestment feature, contributing $88.4 million of additional interests into the CLO.

The following table is a summary of our CLO as of December 31, 2019 (amounts in thousands):

	Count	Face Amount	Carrying Value	Weighted Average Spread		Maturity	
Collateral assets	20	$ 1,073,504	$ 1,073,504	LIBOR + 3.34%	(a)	Nov 2023	(b)
Financing	1	936,375	928,060	LIBOR + 1.65%	(c)	July 2038	(d)

(a) Represents the weighted-average coupon earned on variable rate loans during the year ended December 31, 2019. Of the loans financed by the CLO, 9% earned fixed weighted average interest of 6.84%.

(b) Represents the weighted-average maturity, assuming the extended contractual maturity of the collateral assets.
(c) Represents the weighted-average cost of financing incurred during the year ended December 31, 2019, inclusive of deferred issuance costs.
(d) Repayments of the CLO are tied to timing of the related collateral asset repayments. The term of the CLO financing obligation represents the legal final maturity date.

We incurred $9.2 million of issuance costs in connection with the CLO, which are amortized on an effective yield basis over the estimated life of the CLO. As of December 31, 2019, our unamortized issuance costs were $8.3 million.

The CLO is considered a VIE, for which we are deemed the primary beneficiary. We therefore consolidate the CLO. Refer to Note 15 for further discussion.

Maturities

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 following table sets forth our principal repayments schedule for secured financings based on the earlier of (i) the extended contractual maturity of each credit facility or (ii) the extended contractual maturity of each of the investments that have been pledged as collateral under the respective credit facility (amounts in thousands):

	Repurchase Agreements	Other Secured Financing	CLO	Total
2020	$ 480,249	$ 564,886	$ —	$ 1,045,135
2021	625,956	857,429	—	1,483,385
2022	1,010,970	552,175	—	1,563,145
2023	1,056,812	705,283	—	1,762,095
2024	1,065,312	284,235	—	1,349,547
Thereafter	370,158	1,426,660	936,375 (a)	2,733,193
Total	$ 4,609,457	$ 4,390,668	$ 936,375	$ 9,936,500

(a) Assumes utilization of the reinvestment feature.

11. Unsecured Senior Notes

The following table is a summary of our unsecured senior notes outstanding as of December 31, 2019 and 2018 (dollars in thousands):

	Coupon Rate	Effective Rate (1)	Maturity Date	Remaining Period of Amortization	Carrying Value at December 31, 2019	Carrying Value at December 31, 2018
2019 Convertible Notes	N/A	N/A	N/A	N/A	$ —	$ 77,969
2021 Senior Notes (February)	3.63 %	3.89 %	2/1/2021	1.1 years	500,000	500,000
2021 Senior Notes (December)	5.00 %	5.32 %	12/15/2021	2.0 years	700,000	700,000
2023 Convertible Notes	4.38 %	4.86 %	4/1/2023	3.3 years	250,000	250,000
2025 Senior Notes	4.75 %	5.04 %	3/15/2025	5.2 years	500,000	500,000
Total principal amount					1,950,000	2,027,969
Unamortized discount—Convertible Notes					(3,610)	(4,644)
Unamortized discount—Senior Notes					(12,144)	(16,416)
Unamortized deferred financing costs					(5,624)	(8,078)
Carrying amount of debt components					$ 1,928,622	$ 1,998,831
Carrying amount of conversion option equity components recorded in additional paid-in capital for outstanding convertible notes					$ 3,755	$ 3,755

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

Senior Notes Due February 2021

On January 29, 2018, we issued $500.0 million of 3.625% Senior Notes due 2021 (the "2021 February Notes"). The 2021 February Notes mature on February 1, 2021. Prior to November 1, 2020, we may redeem some or all of the 2021 February Notes at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. On and after November 1, 2020, we may redeem some or all of the 2021 February Notes at a price equal to 100% of the principal amount thereof. In addition, prior to February 1, 2020, we may redeem up to 40% of the 2021 February Notes at the applicable redemption price using the proceeds of certain equity offerings. The 2021 February Notes were swapped to floating rate (see Note 13).

Senior Notes Due December 2021

On December 16, 2016, we issued $700.0 million of 5.00% Senior Notes due 2021 (the "2021 December Notes"). The 2021 December Notes mature on December 15, 2021. Prior to September 15, 2021, we may redeem some or all of the 2021 December Notes at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. On and after September 15, 2021, we may redeem some or all of the 2021 December Notes at a price equal to 100% of the principal amount thereof. In addition, prior to December 15, 2019, we may redeem up to 35% of the 2021 December Notes at the applicable redemption price using the proceeds of certain equity offerings.

Senior Notes Due 2025

On December 4, 2017, we issued $500.0 million of 4.75% Senior Notes due 2025 (the "2025 Notes"). The 2025 Notes mature on March 15, 2025. Prior to September 15, 2024, we may redeem some or all of the 2025 Notes at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. On and after September 15, 2024, we may redeem some or all of the 2025 Notes at a price equal to 100% of the principal amount thereof. In addition, prior to March 15, 2021, we may redeem up to 40% of the 2025 Notes at the applicable redemption price using the proceeds of certain equity offerings. The 2025 Notes were swapped to floating rate (see Note 13).

Convertible Notes

On March 29, 2017, we issued $250.0 million of 4.375% Convertible Senior Notes due 2023 (the "2023 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"). In October 2017, we repaid the full outstanding principal amount of the 2017 Notes in cash upon their maturity. In March 2018, we repaid the full outstanding principal amount of the 2018 Notes in cash upon their maturity.

During the year ended December 31, 2019, we settled the remaining $78.0 million principal amount of the 2019 Notes through the issuance of 3.6 million shares of common stock and cash payments of $12.0 million. During the year ended December 31, 2018, we received and settled redemption notices related to the 2019 Notes with a par amount totaling $263.4 million. Total consideration of $296.8 million was paid via the issuance of 12.4 million shares and cash payments of $25.5 million. The $264.4 million of settlement consideration attributable to the liability component of the 2019 Notes exceeded the proportionate net carrying amount of the liability component by $2.1 million, which was recognized as a loss on extinguishment of debt in our consolidated statement of operations for the year ended December 31, 2018. The $32.4 million of settlement consideration attributable to the equity component of the 2019 Notes was recognized as a reduction of additional paid-in capital in our consolidated statement of equity for the year ended December 31, 2018, partially offsetting the $271.2 million fair value of the shares issued.

On March 29, 2017, the proceeds from the issuance of the 2023 Notes were used to repurchase $230.0 million of the 2018 Notes for $250.7 million. The repurchase price was allocated between the fair value of the liability component and the fair value of the equity component of the 2018 Notes at the repurchase date. The portion of the repurchase price attributable to the equity component totaled $18.1 million and was recognized as a reduction of additional paid-in capital during the year ended December 31, 2017. The portion of the repurchase price attributable to the liability component exceeded the net carrying amount of the liability component by $5.9 million, which was recognized as a loss on extinguishment of debt in our consolidated statement of operations for the year ended December 31, 2017.

We recognized interest expense of $12.3 million, $28.9 million and $72.2 million during the years ended December 31, 2019, 2018 and 2017, respectively, from our Convertible Notes.

The following table details the conversion attributes of our Convertible Notes outstanding as of December 31, 2019 (amounts in thousands, except rates):

	December 31, 2019		Conversion Spread Value - Shares (3) For the Year Ended December 31,		
	Conversion Rate (1)	Conversion Price (2)	2019	2018	2017
2018 Notes	N/A	N/A	—	—	541
2019 Notes	N/A	N/A	—	91	1,358
2023 Notes	38.5959	$ 25.91	—	—	—
			—	91	1,899

(1) 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 indentures governing the Convertible Notes (including the applicable supplemental indentures).

(2) As of December 31, 2019, 2018 and 2017, the market price of the Company's common stock was $24.86, $19.71 and $21.35 per share, respectively.

(3) The conversion spread value represents the portion of the Convertible Notes that are "in-the-money", representing the value that would be delivered to investors in shares upon an assumed conversion.

The if-converted value of the 2023 Notes was less than their principal amount by $10.1 million at December 31, 2019 as the closing market price of the Company's common stock of $24.86 was less than the implicit conversion price of $25.91 per share.

Effective June 30, 2018, the Company no longer asserts its intent to fully settle the principal amount of the Convertible Notes in cash upon conversion. The if-converted value of the principal amount of the 2023 Notes was $239.9 million as of December 31, 2019.

Conditions for Conversion

Prior to October 1, 2022, the 2023 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% of the conversion price of the 2023 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 2023 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) certain other specified corporate events (significant consolidation, sale, merger, share exchange, fundamental change, etc.) occur.

On or after October 1, 2022, holders of the 2023 Notes 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.

12. 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.

Conduit Loan Securitizations

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 by third parties. In certain instances, we retain an interest in the VIE and/or serve as special servicer for the VIE. In these circumstances, we generally consolidate the VIE into which the loans were sold. The following summarizes the fair value and par value of loans sold from our conduit platform, as well as the amount of sale proceeds used in part to repay the outstanding balance of the repurchase agreements associated with these loans for the years ended December 31, 2019, 2018 and 2017 (amounts in thousands):

	Face Amount	Proceeds	Repayment of repurchase agreements
For the Year Ended December 31,			
2019	$ 1,781,981	$ 1,845,890	$ 1,289,129
2018	1,517,599	1,563,433	1,147,316
2017	1,517,368	1,582,050	1,152,938

Securitization Financing Arrangements and Sales

Within the Commercial and Residential Lending Segment, we originate or acquire residential and commercial mortgage loans, subsequently selling all or a portion thereof. 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. These loans may be sold directly or through a securitization. In certain instances, we retain an interest in the VIE and continue to act as servicer, special servicer or servicing administrator for the loan following its sale. In these circumstances, similar to the case of our Investing and Servicing Segment described above, we generally consolidate the VIE into which the loans were sold. During the year ended December 31, 2019, we sold residential loans into three securitization VIEs which we consolidate. During the year ended December 31, 2018, we sold residential loans into two securitization VIEs which we consolidate, along with two securitization VIEs into which our commercial loans were sold. In each of these instances, we retained interests in the VIEs. The following table summarizes our loans sold and loans transferred as secured borrowings by the Commercial and Residential Lending Segment net of expenses (amounts in thousands):

	Loan Transfers Accounted for as Sales				Loan Transfers Accounted for as Secured Borrowings	
	Commercial		Residential			
For the Year Ended December 31,	**Face Amount**	**Proceeds**	**Face Amount**	**Proceeds**	**Face Amount**	**Proceeds**
2019	$ 751,210	$ 748,045	$ 1,282,527	$ 1,331,856	$ —	$ —
2018	840,400	835,849	660,865	683,556	—	—
2017	55,470	52,609	—	—	75,000	74,098

During the years ended December 31, 2019 and 2018, we recognized a $6.9 million and $1.3 million, respectively, change in fair value of mortgage loans held-for-sale, net in our consolidated statements of operations in connection with residential mortgage loan securitizations. During the year ended December 31, 2019, gains recognized by the Commercial and Residential Lending Segment on sales of commercial loans were $4.6 million. During the years ended December 31, 2018 and 2017, gains (losses) recognized by the Commercial and Residential Lending Segment on sales of commercial loans were not material.

Our securitizations have each been structured as bankruptcy-remote entities whose assets are not intended to be available to the creditors of any other party.

Infrastructure Loan Sales

During the year ended December 31, 2019, the Infrastructure Lending Segment sold loans held-for-sale with an aggregate face amount of $404.1 million for proceeds of $393.3 million, recognizing a gain of $3.1 million. In connection with these sales, we sold an interest rate swap guarantee for cash payment of $3.1 million and recognized a decrease in fair value of $2.7 million within (loss) gain on derivative financial instruments, net in our consolidated statement of operations during the year ended December 31, 2019. Refer to Note 13 for further discussion of our interest rate swap guarantees. There were no sales of loans by the Infrastructure Lending Segment during the year ended December 31, 2018.

13. 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. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, foreign exchange, liquidity and credit risk primarily by managing the amount, sources and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates, credit spreads, and foreign exchange rates. Our derivative financial instruments are used to manage differences in the amount, timing and duration of the known or expected cash receipts and known or expected cash payments principally related to our investments, anticipated level of loan sales, and borrowings.

Designated Hedges

The Company does not generally elect to apply the hedge accounting designation to its hedging instruments. As of December 31, 2019 and 2018, the Company did not have any designated hedges. Additionally, during the years ended December 31, 2019, 2018 and 2017 the impact of cash flow hedges on our net income was not material, and we did not recognize any hedge ineffectiveness in earnings associated with these cash flow hedges.

Non-designated Hedges and Derivatives

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 various risks such as 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 consolidated statements of operations.

We have entered into the following types of non-designated hedges and derivatives:

- Foreign exchange (“Fx”) forwards whereby we agree to buy or sell a specified amount of foreign currency for a specified amount of USD at a future date, economically fixing the USD amounts of foreign denominated cash flows we expect to receive or pay related to certain foreign denominated loan investments and properties;
- Interest rate contracts which hedge a portion of our exposure to changes in interest rates;
- Credit index instruments which hedge a portion of our exposure to the credit risk of our commercial loans held-for-sale; and
- Interest rate swap guarantees whereby we guarantee the interest rate swap obligations of certain Infrastructure Lending borrowers. Our interest rate swap guarantees were assumed in connection with the acquisition of the Infrastructure Lending Segment.

The following table summarizes our non-designated derivatives as of December 31, 2019 (notional amounts in thousands):

Type of Derivative	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx contracts – Sell Euros ("EUR")	168	199,183	EUR	January 2020 – June 2023
Fx contracts – Sell Pounds Sterling ("GBP")	93	444,236	GBP	January 2020 – December 2023
Fx contracts – Sell Australian dollar ("AUD")	4	25,850	AUD	March 2020 – November 2021
Interest rate swaps – Paying fixed rates	37	1,299,466	USD	July 2022 – January 2030
Interest rate swaps – Receiving fixed rates	2	970,000	USD	January 2021- March 2025
Interest rate caps	12	742,299	USD	January 2020 – August 2023
Credit index instruments	5	89,000	USD	November 2054 – August 2061
Interest rate swap guarantees	6	394,671	USD	March 2022 – June 2025
Interest rate swap guarantees	1	9,390	GBP	December 2024
Total	328			

The table below presents the fair value of our derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2019 and 2018 (amounts in thousands):

	Fair Value of Derivatives in an Asset Position (1) as of December 31,		Fair Value of Derivatives in a Liability Position (2) as of December 31,	
	2019	2018	2019	2018
Interest rate contracts	14,385	30,791	—	14,457
Interest rate swap guarantees	—	—	614	396
Foreign exchange contracts	14,558	21,346	7,834	562
Credit index instruments	—	554	292	—
Total derivatives	$ 28,943	$ 52,691	$ 8,740	$ 15,415

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

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

The tables below present the effect of our derivative financial instruments on the consolidated statements of operations and of comprehensive income for the years ended December 31, 2019, 2018 and 2017 (amounts in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income for the Year Ended December 31, 2019	2018	2017
Interest rate contracts	(Loss) gain on derivative financial instruments	$ (10,516)	$ (1,593)	$ (5,165)
Interest rate swap guarantees	(Loss) gain on derivative financial instruments	(3,350)	(114)	—
Foreign exchange contracts	(Loss) gain on derivative financial instruments	8,801	36,040	(65,645)
Credit index instruments	(Loss) gain on derivative financial instruments	(1,245)	270	(1,722)
		$ (6,310)	$ 34,603	$ (72,532)

Derivatives Designated as Hedging Instruments For the Year Ended December 31,	Gain Recognized in OCI (effective portion)	Gain Reclassified from AOCI into Income (effective portion)	Gain Recognized in Income (ineffective portion)	Location of Gain Recognized in Income
2019	$ —	$ —	$ —	Interest expense
2018	$ 8	$ 33	$ —	Interest expense
2017	$ 54	$ 3	$ —	Interest expense

14. Offsetting Assets and Liabilities

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

	(i) Gross Amounts Recognized	(ii) Gross Amounts Offset in the Statement of Financial Position	(iii) = (i) - (ii) Net Amounts Presented in the Statement of Financial Position	(iv) Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	(iv) Cash Collateral Received / Pledged	(v) = (iii) - (iv) Net Amount
As of December 31, 2019						
Derivative assets	$ 28,943	$ —	$ 28,943	$ 5,312	$ 14,208	$ 9,423
Derivative liabilities	$ 8,740	$ —	$ 8,740	$ 5,312	$ 292	$ 3,136
Repurchase agreements	4,609,457	—	4,609,457	4,609,457	—	—
	$ 4,618,197	$ —	$ 4,618,197	$ 4,614,769	$ 292	$ 3,136
As of December 31, 2018						
Derivative assets	$ 52,691	$ —	$ 52,691	$ 1,408	$ —	$ 51,283
Derivative liabilities	$ 15,415	$ —	$ 15,415	$ 1,408	$ 8,658	$ 5,349
Repurchase agreements	4,289,750	—	4,289,750	4,289,750	—	—
	$ 4,305,165	$ —	$ 4,305,165	$ 4,291,158	$ 8,658	$ 5,349

15. Variable Interest Entities

Investment Securities

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

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

VIEs in which we are the Primary Beneficiary

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

During the year ended December 31, 2019, we refinanced a pool of our commercial loans held-for-investment through a CLO, which is considered to be a VIE. We are the primary beneficiary of, and therefore consolidate, the CLO in our financial statements as we have both (i) the power to direct the activities in our role as collateral manager that most significantly impact the CLO's economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the CLO that could be potentially significant through the subordinate interests we own.

The following table details the assets and liabilities of our consolidated CLO (amounts in thousands):

	As of December 31, 2019
Assets:	
Loans held-for-investment	$ 1,073,504
Accrued interest receivable	3,129
Other assets	26,496
Total Assets	**$ 1,103,129**
Liabilities	
Accounts payable, accrued expenses and other liabilities	$ 1,362
Collateralized loan obligations, net	928,060
Total Liabilities	**$ 929,422**

Assets held by this CLO are restricted and can be used only to settle obligations of the CLO, including the subordinate interests owned by us. The liabilities of this CLO are non-recourse to us and can only be satisfied from the assets of the CLO.

We also hold controlling interests in other non-securitization entities that are considered VIEs. SPT Dolphin, the entity which holds the Woodstar II Portfolio, is a VIE because the third party interest holders do not carry kick-out rights or substantive participating rights. We were deemed to be the primary beneficiary of the VIE because we possess both the power to direct the activities of the VIE that most significantly impact its economic performance and a significant economic interest in the entity. This VIE had total assets of $684.1 million and liabilities of $444.4 million as of December 31, 2019.

In December 2019, we entered into a newly-formed joint venture (the "CMBS JV") within our Investing and Servicing Segment, which is considered a VIE because the third party interest holder does not carry kick-out rights or substantive participating rights. We hold a 51% ownership interest and are deemed the primary beneficiary of the CMBS JV. This VIE had total assets of $347.2 million and liabilities of $0.4 million as of December 31, 2019. Refer to Note 17 for further discussion.

In total, our other consolidated non-securitization VIEs had total assets of $1.1 billion and liabilities of $491.8 million as of December 31, 2019.

VIEs in which we are not the Primary Beneficiary

In certain instances, we hold a variable interest in a VIE in the form of CMBS, but either (i) we are not appointed, or do not serve as, special servicer or servicing administrator or (ii) an unrelated third party has the rights to unilaterally remove us as special servicer without cause. In these instances, we do not have the power to direct activities that most significantly impact the VIE's economic performance. In other cases, the variable interest we hold does not obligate us to absorb losses or provide us with the right to receive benefits from the VIE which could potentially be significant. For these structures, we are not deemed to be the primary beneficiary of the VIE, and we do not consolidate these VIEs.

As of December 31, 2019, four of our collateralized debt obligation ("CDO") structures within our Investing and Servicing Segment were in default or imminent default, which, pursuant to the underlying indentures, changes the rights of the variable interest holders. Upon default of a CDO, the trustee or senior note holders are allowed to exercise certain rights, including liquidation of the collateral, which at that time, is the activity which would most significantly impact the CDO's economic performance. Further, when the CDO is in default, the collateral administrator no longer has the option to purchase securities from the CDO. In cases where the CDO is in default and we do not have the ability to exercise rights which would most significantly impact the CDO's economic performance, we do not consolidate the VIE. As of December 31, 2019, none of these CDO structures were consolidated.

As noted above, we are not obligated to provide, nor have we provided, any financial support for any of our securitization VIEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our investment in the entity. As of December 31, 2019, our maximum risk of loss related to securitization VIEs in which we were not the primary beneficiary was $37.4 million on a fair value basis.

As of December 31, 2019, the securitization VIEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances, excluding the notional value of interest-only securities, of $6.1 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

We also hold passive non-controlling interests in certain unconsolidated entities that are considered VIEs. We are not the primary beneficiaries of these VIEs as we do not possess the power to direct the activities of the VIEs that most significantly impact their economic performance and therefore report our interests, which totaled $21.2 million as of December 31, 2019, within investment in unconsolidated entities on our consolidated balance sheet. Our maximum risk of loss is limited to our carrying value of the investments.

16. Related-Party Transactions

Management Agreement

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

In February 2018, our board of directors authorized an amendment to our Management Agreement to adjust the calculation of the base management fee and incentive fee to treat equity securities of subsidiaries issued in exchange for properties as issued common stock, effective December 28, 2017 (the "Amendment"). The terms of the Amendment are reflected in the below descriptions of the base management fee and incentive fee calculations.

Base Management Fee. The base management fee is 1.5% of our stockholders' equity per annum and calculated and payable quarterly in arrears in cash. For purposes of calculating the management fee, our stockholders' equity means: (a) the sum of (1) the net proceeds from all issuances of our equity securities since inception and equity securities of subsidiaries issued in exchange for properties (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (2) our retained earnings and income to non-controlling interests with respect to equity securities of subsidiaries issued in exchange for properties at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that we pay to repurchase our common stock since inception. It also excludes (1) any unrealized gains and losses and other non-cash items that have impacted stockholders' equity as reported in our financial statements prepared in accordance with GAAP, and (2) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between our Manager and our independent directors and approval by a majority of our independent directors. As a result, our stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown in our consolidated financial statements.

For the years ended December 31, 2019, 2018 and 2017, approximately $77.0 million, $73.2 million and $67.8 million, respectively, was incurred for base management fees. As of December 31, 2019 and 2018, there were $19.3 million and $19.2 million, respectively, of unpaid base management fees included in related-party payable in our consolidated balance sheets.

Incentive Fee. Our Manager is entitled to be paid the incentive fee described below with respect to each calendar quarter if (1) our Core Earnings (as defined below) for the previous 12-month period exceeds an 8% threshold, and (2) our Core Earnings for the 12 most recently completed calendar quarters is greater than zero.

The incentive fee is calculated as follows: an amount, not less than zero, equal to the difference between (1) the product of (x) 20% and (y) the difference between (i) our Core Earnings for the previous 12-month period, and (ii) the product of (A) the weighted average of the issue price per share of our common stock of all of our public offerings and including issue price per equity security of subsidiaries issued in exchange for properties multiplied by the weighted average number of all shares of common stock outstanding (including any RSUs, any RSAs and other shares of common stock underlying awards granted under our equity incentive plans) and equity securities of subsidiaries issued in exchange for properties in such previous 12-month period, and (B) 8%, and (2) the sum of any incentive fee paid to our Manager with respect to the first three calendar quarters of such previous 12-month period. One half of each quarterly installment of the incentive fee is payable in shares of our common stock so long as the ownership of such additional number of shares by our Manager would not violate the 9.8% stock ownership limit set forth in our charter, after giving effect to any waiver from such limit that our board of directors may grant in the future. The remainder of the incentive fee is payable in cash. The number of shares to be issued to our Manager is equal to the dollar amount of the portion of the quarterly installment of the incentive fee payable in shares divided by the average of the closing prices of our common stock on the NYSE for the five trading days prior to the date on which such quarterly installment is paid.

Core Earnings is a non-GAAP financial measure. We calculate Core Earnings as GAAP net income (loss) excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization of real estate and associated intangibles, acquisition costs associated with successful acquisitions, any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in OCI, or in net income and, to the extent deducted from net income (loss), distributions payable with respect to equity securities of subsidiaries issued in exchange for properties. The amount is adjusted to exclude one-time events pursuant to changes in GAAP and certain other non-cash adjustments as determined by our Manager and approved by a majority of our independent directors.

For the years ended December 31, 2019, 2018 and 2017, approximately $20.2 million, $41.4 million and $42.1 million, respectively, was incurred for incentive fees. As of December 31, 2019 and 2018, there were $18.1 million and $21.8 million, respectively, of unpaid incentive fees included in related-party payable in our consolidated balance sheets.

Expense Reimbursement. We are required to reimburse our Manager for operating expenses incurred by our Manager on our behalf. In addition, pursuant to the terms of the Management Agreement, we are required to reimburse our Manager for the cost of legal, tax, consulting, accounting and other similar services rendered for us by our Manager's personnel provided that such costs are no greater than those that would be payable if the services were provided by an independent third party. The expense reimbursement is not subject to any dollar limitations but is subject to review by our independent directors. For the years ended December 31, 2019, 2018 and 2017, approximately $7.7 million, $7.7 million and $6.4 million, respectively, was incurred for executive compensation and other reimbursable expenses and recognized within general and administrative expenses in our consolidated statements of operations. As of December 31, 2019 and 2018, there were $3.5 million and $3.0 million, respectively, of unpaid reimbursable executive compensation and other expenses included in related-party payable in our consolidated balance sheets.

Equity Awards. In certain instances, we issue RSAs to certain employees of affiliates of our Manager who perform services for us. During the years ended December 31, 2019, 2018 and 2017, we granted 182,861, 252,375 and 138,264 RSAs, respectively, at grant date fair values of $4.1 million, $5.3 million and $3.1 million, respectively. Expenses related to the vesting of awards to employees of affiliates of our Manager were $4.1 million, $2.9 million and $2.7 million for the years ended December 31, 2019, 2018 and 2017, respectively, and are reflected in general and administrative expenses in our consolidated statements of operations. These shares generally vest over a three-year period.

Payments to Manager Employees. During the year ended December 31, 2018, we made a cash payment of $1.3 million directly to an employee of our Manager in connection with the Company's Infrastructure Lending Segment acquisition which was recognized within general and administrative expenses in our consolidated statement of operations for that year. No cash payments were made directly to employees of our Manager during the years ended December 31, 2019 and 2017.

Termination Fee. We can terminate the Management Agreement without cause, as defined in the Management Agreement, with an affirmative two-thirds vote by our independent directors and 180 days written notice to our Manager. Upon termination without cause, our Manager is due a termination fee equal to three times the sum of the average annual base management fee and incentive fee earned by our Manager over the preceding eight calendar quarters. No termination fee is payable if our Manager is terminated for cause, as defined in the Management Agreement, which can be done at any time with 30 days written notice from our board of directors.

Manager Equity Plan

In May 2017, the Company's shareholders approved the Starwood Property Trust, Inc. 2017 Manager Equity Plan (the "2017 Manager Equity Plan"), which replaced the Starwood Property Trust, Inc. Manager Equity Plan ("Manager Equity Plan"). In September 2019, we granted 1,200,000 RSUs to our Manager under the 2017 Manager Equity Plan. In April 2018, we granted 775,000 RSUs to our Manager under the 2017 Manager Equity Plan. In March 2017, we granted 1,000,000 RSUs to our Manager under the Manager Equity Plan. In May 2015, we granted 675,000 RSUs to our Manager under the Manager Equity Plan. In connection with these grants and prior similar grants, we recognized share-based compensation expense of $20.2 million, $12.6 million and $10.4 million within management fees in our consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017, respectively. Refer to Note 17 for further discussion of these grants.

Investments in Loans and Securities

In November 2019, the Company and SEREF, an affiliate of our Manager, each originated €39.0 million of a €192.0 million first mortgage and subordinated loan. The loan was to a third party borrower for the acquisition of an office portfolio located in Spain. The loan matures in November 2023. In December 2019, we sold the first mortgage of €15.0 million.

In September 2019, the Company co-originated a €73.6 million first mortgage loan with SEREF, an affiliate of our Manager. The loan was to a third party borrower for the development of a Grade A office building and convention center in Dublin, Ireland. The Company originated €58.9 million of the loan and SEREF originated €14.7 million. The loan matures in May 2022.

In February 2019, the Company acquired a $60.0 million participation in a $1.0 billion first priority infrastructure term loan. In April 2019 and July 2019, the Company acquired participations of $5.0 million and $16.0 million, respectively, in a $300.0 million upsize to the term loan. The loan is secured by two domestic natural gas power plants. An affiliate of our Manager, Starwood Energy Group, is the borrower under the term loan.

In March 2019, the Company originated a $22.5 million loan to refinance the debt of a commercial real estate partnership in which we hold a 50% equity interest.

During the years ended December 31, 2019 and 2018, the Company acquired $353.0 million and $135.6 million, respectively, of loans from a residential mortgage originator in which it holds an equity interest. Also in September 2019 and October 2019, the Company amended a $2.0 million subordinated loan to this residential mortgage originator, which was entered into in June 2018, to extend the maturity from September 2019 to September 2020 and increase the total commitment to $4.5 million. Refer to Note 8 for further discussion.

In December 2018, the Company co-originated a £62.5 million mezzanine loan for the development of a residential and hotel property located in Central London with SEREF, an affiliate of our Manager. We originated £21.3 million of the loan and SEREF originated £41.2 million. The loan matures in December 2021.

In June 2018, a subordinate CMBS investment in a securitization issued by an affiliate of our Manager was paid off in full. We acquired the security, which was secured by five regional malls in Ohio, California and Washington, for $84.1 million in December 2013. In January 2016, we acquired an additional $9.7 million of this subordinate CMBS investment.

In March 2018, the Company acquired a €55.0 million newly-originated loan participation from SEREF, which is secured by a luxury resort in Estepona, Spain. The loan matures in March 2023.

In February 2018, a GBP denominated first mortgage loan that we had co-originated with SEREF in November 2013, which was secured by Centre Point, an iconic tower located in Central London, England, was repaid in full.

In January 2018, the Company acquired a $130.0 million first mortgage participation from an unaffiliated third party. The loan is secured by four U.S. power plants that each have long-term power purchase agreements with investment grade counterparties. The borrower is an affiliate of our Manager.

In August 2017, we originated a $339.2 million first mortgage and mezzanine loan for the acquisition of an office campus located in Irvine, California. An affiliate of our Manager has a non-controlling equity interest in the borrower.

In June 2016, we co-originated a £75.0 million first mortgage for the development of a three-property mixed use portfolio located in Greater London with SEREF, an affiliate of our Manager. We originated £60.0 million of the loan and SEREF originated £15.0 million. In June 2017, we amended the first mortgage to reduce the total commitment to £69.3 million, of which our share was £55.4 million. In October 2018, we amended the first mortgage to increase the total commitment to £77.0 million, of which our share is £61.6 million, and remove one of the properties from the collateral pool. The loan matures in February 2020.

In May 2017, our conduit business acquired certain commercial real estate loans from an unaffiliated third party for an aggregate purchase price of $50.0 million. The underlying borrowers are affiliates of our Manager. Subsequently during the year ended December 31, 2017, the loans were sold.

In March 2015, we purchased a subordinate single-borrower CMBS from a third party for $58.6 million which is secured by 85 U.S. hotel properties. The borrower is an affiliate of Starwood Distressed Opportunity Fund IX ("Fund IX"), an affiliate of our Manager. The subordinate single-borrower CMBS was fully repaid in March 2017.

In July 2014, we announced the co-origination of a £101.75 million first mortgage loan for the development of a 46-story residential tower and 18-story housing development containing a total of 366 private residential and affordable housing units located in London. We originated £86.75 million of the loan, and private funds managed by an affiliate of our Manager provided £15.0 million. The first mortgage loan was paid off in full in March 2017.

In April 2013, we purchased two B-Notes for $146.7 million from entities substantially all of whose equity was owned by an affiliate of our Manager. The B-Notes are secured by two Class A office buildings located in Austin, Texas. On May 17, 2013, we sold senior participation interests in the B-Notes to a third party, generating $95.0 million in aggregate proceeds. We retained the subordinated interests. In October 2015, we sold one of the subordinated interests in the B-Notes to a third party, generating $29.2 million in aggregate proceeds. The remaining subordinated interest was paid off in full in April 2017.

In December 2012, we acquired 9,140,000 ordinary shares in SEREF, a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange, for approximately $14.7 million, which equated to approximately 4% ownership of SEREF. As of December 31, 2019, our shares represent an approximate 2% interest in SEREF. Refer to Note 6 for additional details.

Investment in Unconsolidated Entities

In October 2014, we committed $150 million for a 33% equity interest in four regional shopping malls (the "Retail Fund"). In August 2017, we funded the remaining $15.5 million capital commitment associated with this investment. During the years ended December 31, 2019, 2018 and 2017, we recognized a loss of $114.4 million, earnings of $3.7 million and a loss of $27.7 million, respectively, and received distributions of $2.1 million during the year ended December 31, 2017. During the period included in our year ended December 31, 2019, the Retail Fund reported unrealized decreases in the fair value of its real estate properties, which resulted in a $47.2 million decrease to our investment. In addition, we provided an impairment charge of $71.9 million against the remainder of the investment based on our estimate of the fair value of the underlying retail assets as of December 31, 2019. Refer to Note 8 for further detail. The Retail Fund was established for the purpose of acquiring and operating four leading regional shopping malls located in Florida, Michigan, North Carolina and Virginia. All leasing services and asset management functions for the properties are conducted by an affiliate of our Manager which specializes in redeveloping, managing and repositioning retail real estate assets. In addition, another affiliate of our Manager serves as general partner of the Retail Fund.

In April 2013, in connection with our acquisition of LNR, we acquired 50% of a joint venture which owns equity in an online real estate company. An affiliate of ours, Fund IX, owns the remaining 50% of the venture.

Acquisitions from Consolidated CMBS Trusts

Our Investing and Servicing Segment acquires interests in properties for its REIS Equity Portfolio from CMBS trusts, some of which are consolidated as VIEs on our balance sheet. Acquisitions from consolidated VIEs are reflected as repayment of debt of consolidated VIEs in our consolidated statements of cash flows. During the years ended December 31, 2019, 2018 and 2017, we acquired \$8.6 million, \$27.7 million and \$30.9 million, respectively, of net real estate assets from consolidated CMBS trusts for a total gross purchase price of \$8.8 million, \$28.0 million and \$31.3 million, respectively. Refer to Note 3 for further discussion of these acquisitions.

Other Related-Party Arrangements

During the year ended December 31, 2016, we established a co-investment fund which provides key personnel with the opportunity to invest in certain properties included in our REIS Equity Portfolio. These personnel include certain of our employees as well as employees of affiliates of our Manager (collectively, “Fund Participants”). The fund carries an aggregate commitment of \$15.0 million and owns a 10% equity interest in certain REIS Equity Portfolio properties acquired subsequent to January 1, 2015. As of December 31, 2019, Fund Participants have funded \$4.9 million of the capital commitment, and it is our current expectation that there will be no additional funding of the commitment. The capital contributed by Fund Participants is reflected on our consolidated balance sheets as non-controlling interests in consolidated subsidiaries. In an effort to retain key personnel, the fund provides for disproportionate distributions which allows Fund Participants to earn an incremental 60% on all operating cash flows attributable to their capital account, net of a 5% preferred return to us as general partner of the fund. Amounts earned by Fund Participants pursuant to this waterfall are reflected within net income attributable to non-controlling interests in our consolidated statements of operations. During the years ended December 31, 2019, 2018 and 2017, the non-controlling interests related to this fund received cash distributions of \$1.3 million, \$2.0 million and \$1.4 million, respectively.

During the years ended December 31, 2019 and 2018, we engaged Highmark Residential (“Highmark”) (formerly known as Milestone Management), an affiliate of our Manager, to provide property management services for 11 and ten properties within our Woodstar I Portfolio, respectively, bringing the total number of our properties managed by Highmark to 21. Fees paid to Highmark are calculated as a percentage of gross receipts and are at market terms. During the years ended December 31, 2019 and 2018, property management fees paid to Highmark were \$1.6 million and \$0.1 million, respectively.

17. Stockholders’ Equity and Non-Controlling Interests

The Company’s authorized capital stock consists of 100,000,000 shares of preferred stock, \$0.01 par value per share, and 500,000,000 shares of common stock, \$0.01 par value per share.

In May 2014, we established the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the “DRIP Plan”), which provides stockholders with a means of purchasing additional shares of our common stock by reinvesting the cash dividends paid on our common stock and by making additional optional cash purchases. Shares of our common stock purchased under the DRIP Plan will either be issued directly by the Company or purchased in the open market by the plan administrator. The Company may issue up to 11.0 million shares of common stock under the DRIP Plan. During the years ended December 31, 2019, 2018 and 2017, shares issued under the DRIP Plan were not material.

In May 2014, we entered into an amended and restated At-The-Market Equity Offering Sales Agreement (the “ATM Agreement”) with Merrill Lynch, Pierce, Fenner & Smith Incorporated to sell shares of the Company’s common stock of up to \$500.0 million from time to time, through an “at the market” equity offering program. Sales of shares under the ATM Agreement are made by means of ordinary brokers’ transactions on the NYSE or otherwise at market prices prevailing at the time of sale or at negotiated prices. During the years ended December 31, 2019, 2018 and 2017, there were no shares issued under the ATM Agreement.

In September 2014, our board of directors authorized and announced the repurchase of up to $250 million of our outstanding common stock over a period of one year. Subsequent amendments to the repurchase program approved by our board of directors in December 2014, June 2015, January 2016 and February 2017 resulted in the program being (i) amended to increase maximum repurchases to $500.0 million, (ii) expanded to allow for the repurchase of our outstanding Convertible Notes under the program and (iii) extended through January 2019. Purchases made pursuant to the program were made in either the open market or in privately negotiated transactions from time to time as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases were discretionary and subject to economic and market conditions, stock price, applicable legal requirements and other factors. There were no Convertible Note or common stock repurchases under the repurchase program during the years ended December 31, 2019 and 2017. During the year ended December 31, 2018, we repurchased 573,255 shares of common stock for $12.1 million and there were no Convertible Notes repurchases under our repurchase program. The repurchase program expired in January 2019.

During the years ended December 31, 2019 and 2018, we issued 3.6 million shares and 12.4 million shares, respectively, in connection with the settlement of $78.0 million and $263.4 million, respectively, of our 2019 Notes. Refer to Note 11 for further discussion.

Our board of directors declared the following dividends during the years ended December 31 2019, 2018 and 2017:

Declaration Date	Record Date	Ex-Dividend Date	Payment Date	Amount	Frequency
11/8/19	12/31/19	12/30/19	1/15/20	$ 0.48	Quarterly
8/7/19	9/30/19	9/27/19	10/15/19	0.48	Quarterly
5/8/19	6/28/19	6/27/19	7/15/19	0.48	Quarterly
2/28/19	3/29/19	3/28/19	4/15/19	0.48	Quarterly
11/9/18	12/31/18	12/28/18	1/15/19	0.48	Quarterly
8/8/18	9/28/18	9/27/18	10/15/18	0.48	Quarterly
5/4/18	6/29/18	6/28/18	7/13/18	0.48	Quarterly
2/28/18	3/30/18	3/28/18	4/13/18	0.48	Quarterly
11/8/17	12/29/17	12/28/17	1/12/18	0.48	Quarterly
8/9/17	9/29/17	9/28/17	10/13/17	0.48	Quarterly
5/9/17	6/30/17	6/28/17	7/14/17	0.48	Quarterly
2/23/17	3/31/17	3/29/17	4/14/17	0.48	Quarterly

Equity Incentive Plans

In May 2017, the Company's shareholders approved the 2017 Manager Equity Plan and the Starwood Property Trust, Inc. 2017 Equity Plan (the "2017 Equity Plan"), which allow for the issuance of up to 11,000,000 stock options, stock appreciation rights, RSAs, RSUs or other equity-based awards or any combination thereof to the Manager, directors, employees, consultants or any other party providing services to the Company. The 2017 Manager Equity Plan succeeds and replaces the Manager Equity Plan and the 2017 Equity Plan succeeds and replaces the Starwood Property Trust, Inc. Equity Plan (the "Equity Plan") and the Starwood Property Trust, Inc. Non-Executive Director Stock Plan (the "Non-Executive Director Stock Plan"). As of December 31, 2019, 7,498,820 share awards were available to be issued under either the 2017 Manager Equity Plan or the 2017 Equity Plan, determined on a combined basis.

To date, we have only granted RSAs and RSUs under the equity incentive plans. The holders of awards of RSAs or RSUs are entitled to receive dividends or "distribution equivalents" beginning on either the award's grant date or vest date, depending on the terms of the award.

The table below summarizes our share awards granted or vested under the Manager Equity Plan and the 2017 Manager Equity Plan during the years ended December 31, 2019, 2018 and 2017 (dollar amounts in thousands):

Grant Date	Type	Amount Granted	Grant Date Fair Value	Vesting Period
September 2019	RSU	1,200,000	$ 29,484	(1)
April 2018	RSU	775,000	16,329	3 years
March 2017	RSU	1,000,000	22,240	3 years
May 2015	RSU	675,000	16,511	3 years
January 2014	RSU	489,281	14,776	3 years
January 2014	RSU	2,000,000	55,420	3 years

(1) Of the amount granted, 218,898 vested immediately on the grant date and the remaining amount vests over a three-year period.

During the years ended December 31, 2019, 2018 and 2017, we granted 520,236, 851,170 and 742,516 RSAs, respectively, under the Equity Plan and the 2017 Equity Plan to a select group of eligible participants which includes our employees, directors and employees of our Manager who perform services for us. The awards were granted based on the market price of the Company’s common stock on the respective grant date and generally vest over a three-year period. Expenses related to the vesting of these awards are reflected in general and administrative expenses in our consolidated statements of operations. No RSUs were granted under the Equity Plan and the 2017 Equity Plan during the years ended December 31, 2019, 2018 and 2017.

The following shares of common stock were issued, without restriction, to our Manager as part of the incentive compensation due under the Management Agreement during the years ended December 31, 2019, 2018 and 2017:

Timing of Issuance	Shares of Common Stock Issued	Price per share
November 2019	38,942	$ 24.08
March 2019	495,363	22.16
November 2018	98,026	21.94
August 2018	131,179	21.67
May 2018	224,071	21.49
March 2018	545,641	20.13
November 2017	239,757	21.64
August 2017	98,061	22.10
May 2017	123,478	21.83
February 2017	418,016	22.84

The following table summarizes our share-based compensation expenses during the years ended December 31, 2019, 2018 and 2017 (in thousands):

	For the year ended December 31,		
	2019	2018	2017
Management fees:			
Manager incentive fee	$ 10,082	$ 20,700	$ 21,072
2017 Manager Equity Plan (1)	20,255	12,573	10,423
	30,337	33,273	31,495
General and administrative:			
2017 Equity Plan (1)	15,900	10,185	7,728
	15,900	10,185	7,728
Total share-based compensation expense (2)	$ 46,237	$ 43,458	$ 39,223

(1) Share-based compensation expense relating to the Manager Equity Plan is reflected within the 2017 Manager Equity Plan. Share-based compensation expense relating to the Non-Executive Director Stock Plan and the Equity Plan are reflected within the 2017 Equity Plan.

(2) The income tax benefit associated with the share-based compensation expense for the years ended December 31, 2019 and 2018 was $1.7 million and $1.3 million, respectively.

Schedule of Non-Vested Shares and Share Equivalents (1)

	2017 Equity Plan	2017 Manager Equity Plan	Total	Weighted Average Grant Date Fair Value (per share)
Balance as of January 1, 2019	1,436,445	997,920	2,434,365	$ 21.52
Granted	520,236	1,200,000	1,720,236	24.01
Vested	(518,298)	(892,323)	(1,410,621)	22.20
Forfeited	(25,213)	—	(25,213)	21.84
Balance as of December 31, 2019	1,413,170	1,305,597	2,718,767	22.74

(1) Equity-based award activity for awards granted under the Equity Plan and Non-Executive Director Stock Plan is reflected within the 2017 Equity Plan column, and for awards granted under the Manager Equity Plan, within the 2017 Manager Equity Plan column.

The weighted average grant date fair value per share of grants during the years ended December 31, 2019, 2018 and 2017 was $24.01, $21.20 and $22.20, respectively.

Vesting Schedule

	2017 Equity Plan	2017 Manager Equity Plan	Total
2020	799,039	668,701	1,467,740
2021	440,173	391,619	831,792
2022	173,958	245,277	419,235
Total	1,413,170	1,305,597	2,718,767

As of December 31, 2019, there was approximately $49.3 million of total unrecognized compensation costs related to unvested share-based compensation arrangements which are expected to be recognized over a weighted average period of 2.0 years. The total fair value of shares vested during the years ended December 31, 2019, 2018 and 2017 were $33.2 million, $18.3 million and $18.3 million, respectively, as of the respective vesting dates.

Non-Controlling Interests in Consolidated Subsidiaries

As discussed in Note 3, in connection with our Woodstar II Portfolio acquisitions, we issued 10.2 million Class A Units in SPT Dolphin and rights to receive an additional 1.9 million Class A Units if certain contingent events occur. During the years ended December 31, 2019 and 2018, we issued 0.1 million and 1.7 million, respectively, of the total 1.9 million contingent Class A Units to the Contributors. The Class A Units are redeemable for consideration equal to the current share price of the Company's common stock on a one-for-one basis, with the consideration paid in either cash or the Company's common stock, at the determination of the Company. During the year ended December 31, 2019, redemptions of 1.0 million of the Class A Units were received and settled in common stock. No Class A Units were redeemed during the year ended December 31, 2018. In consolidation, the outstanding Class A Units are reflected as non-controlling interests in consolidated subsidiaries on our consolidated balance sheets, the balance of which was $235.9 million and $254.9 million as of December 31, 2019 and 2018, respectively.

To the extent SPT Dolphin has sufficient cash available, the Class A Units earn a preferred return indexed to the dividend rate of the Company's common stock. Any distributions made pursuant to this waterfall are recognized within net income attributable to non-controlling interests in our consolidated statements of operations. During the years ended December 31, 2019 and 2018, we recognized net income attributable to non-controlling interests of $21.6 million and $17.6 million, respectively, associated with these Class A Units. Amounts attributable to the Class A Unitholders were not significant for the year ended December 31, 2017.

As discussed in Note 15, we entered into the CMBS JV within our Investing and Servicing Segment in December 2019. In connection with the formation of this venture, we sold assets totaling $333.0 million to the CMBS JV, including $318.3 million of CMBS, $13.3 million of interests in various existing CMBS joint ventures, and $1.4 million of related interest receivables. We obtained a 51% interest in the venture for cash consideration of $169.8 million, and our joint venture partner obtained a 49% interest for $163.2 million. The $13.3 million of joint venture interests that we contributed into the CMBS JV relate to joint ventures which we consolidate. The CMBS within these ventures carried a fair value of $24.5 million at the time of sale and related non-controlling interests of $11.2 million.

Because the CMBS JV was deemed a VIE for which we were the primary beneficiary (see Note 15), this transaction was not recognized as a sale for GAAP purposes. Instead, the 49% interest of our joint venture partner is reflected as a non-controlling interest in consolidated subsidiaries on our consolidated balance sheet, and any net income attributable to this 49% joint venture interest will be reflected within net income attributable to non-controlling interests in our consolidated statement of operations. The non-controlling interests in CMBS JV was $175.6 million as of December 31, 2019. During the year ended December 31, 2019, net income attributable to non-controlling interests was immaterial.

In March 2018, we acquired the non-controlling interest held by a third party in one of our consolidated REIS Equity Portfolio properties, which was carried at $0.3 million, for $3.3 million. The excess of the consideration paid to acquire the non-controlling interest over the carrying value of the non-controlling interest was recorded as a reduction of stockholders' equity in March 2018.

18. Earnings per Share

The following table provides a reconciliation of net income and the number of shares of common stock used in the computation of basic EPS and diluted EPS (amounts in thousands, except per share amounts):

	For the Year Ended December 31,		
	2019	2018	2017
Basic Earnings			
Income attributable to STWD common stockholders	$ 509,664	$ 385,830	$ 400,770
Less: Income attributable to participating shares not already deducted as non-controlling interests	(3,873)	(3,592)	(3,183)
Basic earnings	$ 505,791	$ 382,238	$ 397,587
Diluted Earnings			
Income attributable to STWD common stockholders	$ 509,664	$ 385,830	$ 400,770
Less: Income attributable to participating shares not already deducted as non-controlling interests	(3,873)	(3,592)	(3,183)
Add: Interest expense on Convertible Notes (1)	12,354	25,148	—
Add: Loss on extinguishment of Convertible Notes (1)	—	2,099	—
Diluted earnings	$ 518,145	$ 409,485	$ 397,587
Number of Shares:			
Basic — Average shares outstanding	279,337	265,279	259,620
Effect of dilutive securities — Convertible Notes (1)	9,805	22,659	1,899
Effect of dilutive securities — Contingently issuable shares	360	546	508
Effect of dilutive securities — Unvested non-participating shares	210	—	52
Diluted — Average shares outstanding	289,712	288,484	262,079
Earnings Per Share Attributable to STWD Common Stockholders:			
Basic	$ 1.81	$ 1.44	$ 1.53
Diluted	$ 1.79	$ 1.42	$ 1.52

(1) Prior to June 30, 2018, the Company had asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. Accordingly, under GAAP, the dilutive effect to EPS was previously determined using the treasury stock method by dividing only the "conversion spread value" of the "in-the-money" Convertible Notes by the Company's average share price and including the resulting share amount in the diluted EPS denominator. The conversion value of the principal amount of the Convertible Notes was not included. Effective June 30, 2018, the Company no longer asserts its intent to fully settle the principal amount of the Convertible Notes in cash upon conversion. Accordingly, under GAAP, the dilutive effect to EPS for the years ended December 31, 2019 and 2018 is determined using the "if-converted" method whereby interest expense or any loss on extinguishment of our Convertible Notes is added back to the diluted EPS numerator and the full number of potential shares contingently issuable upon their conversion is included in the diluted EPS denominator, if dilutive. Refer to Note 11 for further discussion.

As of December 31, 2019, 2018 and 2017, participating shares of 13.3 million, 13.8 million and 4.2 million, respectively, were excluded from the computation of diluted shares as their effect was already considered under the more dilutive two-class method used above. Such participating shares at December 31, 2019 and 2018 include 11.0 million and 11.9 million potential shares, respectively, of our common stock issuable upon redemption of the Class A Units in SPT Dolphin, as discussed in Note 17.

19. Accumulated Other Comprehensive Income

The changes in AOCI by component are as follows (amounts in thousands):

	Effective Portion of Cumulative Loss on Cash Flow Hedges	Cumulative Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance at January 1, 2017	$ (26)	$ 44,929	$ (8,765)	$ 36,138
OCI before reclassifications	54	13,055	20,775	33,884
Amounts reclassified from AOCI	(3)	(95)	—	(98)
Net period OCI	51	12,960	20,775	33,786
Balance at December 31, 2017	25	57,889	12,010	69,924
OCI before reclassifications	8	(1,390)	(6,865)	(8,247)
Amounts reclassified from AOCI	(33)	(2,984)	—	(3,017)
Net period OCI	(25)	(4,374)	(6,865)	(11,264)
Balance at December 31, 2018	—	53,515	5,145	58,660
OCI before reclassifications	—	(2,460)	(3,665)	(6,125)
Amounts reclassified from AOCI	—	(59)	(1,544)	(1,603)
Net period OCI	—	(2,519)	(5,209)	(7,728)
Balance at December 31, 2019	$ —	$ 50,996	$ (64)	$ 50,932

The reclassifications out of AOCI impacted the consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017 as follows (amounts in thousands):

Details about AOCI Components	Amounts Reclassified from AOCI during the Year Ended December 31, 2019	2018	2017	Affected Line Item in the Statements of Operations
Gain (loss) on cash flow hedges:				
Interest rate contracts	$ —	$ 33	$ 3	Interest expense
Unrealized gains on available-for-sale securities:				
Interest realized upon collection	59	46	95	Interest income from investment securities
Net realized gain on sale of investment	—	2,938	—	Gain on sale of investments and other assets, net
Total	59	2,984	95	
Foreign currency translation:				
Foreign currency gain from sale of Ireland Portfolio	1,544	—	—	Gain on sale of investments and other assets, net
Total reclassifications for the period	$ 1,603	$ 3,017	$ 98	

20. Fair Value

GAAP establishes a hierarchy of valuation techniques based on the observability of inputs utilized in measuring financial assets and liabilities at fair value. GAAP establishes market-based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy are described below:

Level I—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II—Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Valuation Process

We have valuation control processes in place to validate the fair value of the Company's financial assets and liabilities measured at fair value including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and the assumptions are reasonable.

Pricing Verification—We use recently executed transactions, other observable market data such as exchange data, broker/dealer quotes, third party pricing vendors and aggregation services for validating the fair values generated using valuation models. Pricing data provided by approved external sources is evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, analyzing the methodology and assumptions used by the external source to generate a price and/or by evaluating how active the third party pricing source (or originating sources used by the third party pricing source) is in the market.

Unobservable Inputs—Where inputs are not observable, we review the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilized in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs.

Any changes to the valuation methodology will be reviewed by our management to ensure the changes are appropriate. The methods used may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while we anticipate that our valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value could result in a different estimate of fair value at the reporting date.

Fair Value on a Recurring Basis

We determine the fair value of our financial assets and liabilities measured at fair value on a recurring basis as follows:

Loans held-for-sale, commercial

We measure the fair value of our commercial mortgage loans held-for-sale using a discounted cash flow analysis unless observable market data (i.e., securitized pricing) is available. A discounted cash flow analysis requires management to make estimates regarding future interest rates and credit spreads. The most significant of these inputs relates to credit spreads and is unobservable. Thus, we have determined that the fair values of mortgage loans valued using a discounted cash flow analysis should be classified in Level III of the fair value hierarchy, while mortgage loans valued using securitized pricing should be classified in Level II of the fair value hierarchy. Mortgage loans classified in Level III are transferred to Level II if securitized pricing becomes available.

Loans held-for-sale and loans held-for-investment, residential

We measure the fair value of our residential mortgage loans held-for-sale and held-for-investment based on the net present value of expected future cash flows using a combination of observable and unobservable inputs. Observable market participant assumptions include pricing related to trades of residential mortgage loans with similar characteristics. Unobservable inputs include the expectation of future cash flows, which involves judgments about the underlying collateral, the creditworthiness of the borrower, estimated prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. At each measurement date, we consider both the observable and unobservable valuation inputs in the determination of fair value. However, given the significance of the unobservable inputs, these loans have been classified within Level III.

RMBS

RMBS are valued utilizing observable and unobservable market inputs. The observable market inputs include recent transactions, broker quotes and vendor prices ("market data"). However, given the implied price dispersion amongst the market data, the fair value determination for RMBS has also utilized significant unobservable inputs in discounted cash flow models including prepayments, default and severity estimates based on the recent performance of the collateral, the underlying collateral characteristics, industry trends, as well as expectations of macroeconomic events (e.g., housing price curves, interest rate curves, etc.). At each measurement date, we consider both the observable and unobservable valuation inputs in the determination of fair value. However, given the significance of the unobservable inputs these securities have been classified within Level III.

CMBS

CMBS are valued utilizing both observable and unobservable market inputs. These factors include projected future cash flows, ratings, subordination levels, vintage, remaining lives, credit issues, recent trades of similar securities and the spreads used in the prior valuation. We obtain current market spread information where available and use this information in evaluating and validating the market price of all CMBS. Depending upon the significance of the fair value inputs used in determining these fair values, these securities are classified in either Level II or Level III of the fair value hierarchy. CMBS may shift between Level II and Level III of the fair value hierarchy if the significant fair value inputs used to price the CMBS become or cease to be observable.

Equity security

The equity security is publicly registered and traded in the U.S. and its market price is listed on the London Stock Exchange. The security has been classified within Level I.

Domestic servicing rights

The fair value of this intangible is determined using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, including forecasted loan defeasance, control migration, delinquency and anticipated maturity defaults which are calculated assuming a debt yield at which default occurs. Since the most significant of these inputs are unobservable, we have determined that the fair values of this intangible in its entirety should be classified in Level III of the fair value hierarchy.

Derivatives

The valuation of derivative contracts are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market based inputs, including interest rate curves, spot and market forward points and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

The valuation of over the counter derivatives are determined using discounted cash flows based on Overnight Index Swap ("OIS") rates. Fully collateralized trades are discounted using OIS with no additional economic adjustments to arrive at fair value. Uncollateralized or partially collateralized trades are also discounted at OIS, but include appropriate economic adjustments for funding costs (i.e., a LIBOR OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk. For credit index instruments, fair value is determined based on changes in the relevant indices from the date of initiation of the instrument to the reporting date, as these changes determine the amount of any future cash settlement between us and the counterparty. These indices are considered Level II inputs as they are directly observable.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level II of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level III inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of December 31, 2019 and 2018, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level II of the fair value hierarchy.

Liabilities of consolidated VIEs

Our consolidated VIE liabilities generally represent bonds that are not owned by us. The majority of these are either traded in the marketplace or can be analogized to similar securities that are traded in the marketplace. For these liabilities, pricing is considered to be Level II, where the valuation is based upon quoted prices for similar instruments traded in active markets. We generally utilize third party pricing service providers for valuing these liabilities. In order to determine whether to utilize the valuations provided by third parties, we conduct an ongoing evaluation of their valuation methodologies and processes, as well as a review of the individual valuations themselves. In evaluating third party pricing for reasonableness, we consider a variety of factors, including market transaction information for the particular bond, market transaction information for bonds within the same trust, market transaction information for similar bonds, the bond's ratings and the bond's subordination levels.

For the minority portion of our consolidated VIE liabilities which consist of unrated or non-investment grade bonds that are not owned by us, pricing may be either Level II or Level III. If independent third party pricing similar to that noted above is available, we consider the valuation to be Level II. If such third party pricing is not available, the valuation is generated from model-based techniques that use significant unobservable assumptions, and we consider the valuation to be Level III. For VIE liabilities classified as Level III, valuation is determined based on discounted expected future cash flows which take into consideration expected duration and yields based on market transaction information, ratings, subordination levels, vintage and current market spread. VIE liabilities may shift between Level II and Level III of the fair value hierarchy if the significant fair value inputs used to price the VIE liabilities become or cease to be observable.

Assets of consolidated VIEs

The securitization VIEs in which we invest are “static”; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets of the VIE, we maximize the use of observable inputs over unobservable inputs. The individual assets of a VIE are inherently incapable of precise measurement given their illiquid nature and the limitations on available information related to these assets. Because our methodology for valuing these assets does not value the individual assets of a VIE, but rather uses the value of the VIE liabilities as an indicator of the fair value of VIE assets as a whole, we have determined that our valuations of VIE assets in their entirety should be classified in Level III of the fair value hierarchy.

Fair Value on a Nonrecurring Basis

We determine the fair value of our financial assets and liabilities measured at fair value on a nonrecurring basis as follows:

Loans held-for-sale, infrastructure

We measure the fair value of infrastructure loans held-for-sale, which are carried at the lower of amortized cost or fair value, utilizing bids periodically received from third parties to acquire these assets. As these bids represent observable market data, we have determined that the fair value of these assets would be classified in Level II of the fair value hierarchy.

Fair Value Only Disclosed

We determine the fair value of our financial instruments and assets where fair value is disclosed as follows:

Loans held-for-investment, loans held-for-sale and loans transferred as secured borrowings

We estimate the fair values of our loans not carried at fair value on a recurring basis by discounting their expected cash flows at a rate we estimate would be demanded by the market participants that are most likely to buy our loans. The expected cash flows used are generally the same as those used to calculate our level yield income in the financial statements. Since these inputs are unobservable, we have determined that the fair value of these loans in their entirety would be classified in Level III of the fair value hierarchy.

HTM debt securities

We estimate the fair value of our mandatorily redeemable preferred equity interests in commercial real estate companies and infrastructure bonds using the same methodology described for our loans held-for-investment. We estimate the fair value of our HTM CMBS using the same methodology described for our CMBS carried at fair value on a recurring basis.

Secured financing agreements, CLO, unsecured senior notes not convertible and secured borrowings on transferred loans

The fair value of the secured financing agreements, CLO, unsecured senior notes not convertible and secured borrowings on transferred loans are determined by discounting the contractual cash flows at the interest rate we estimate such arrangements would bear if executed in the current market. We have determined that our valuation of these instruments should be classified in Level III of the fair value hierarchy.

Convertible Notes

The fair value of the debt component of our Convertible Notes is estimated by discounting the contractual cash flows at the interest rate we estimate such notes would bear if sold in the current market without the embedded conversion option which, in accordance with ASC 470, is reflected as a component of equity. We have determined that our valuation of our Convertible Notes should be classified in Level III of the fair value hierarchy.

Fair Value Disclosures

The following tables present our financial assets and liabilities carried at fair value on a recurring basis in the consolidated balance sheets by their level in the fair value hierarchy as of December 31, 2019 and 2018 (amounts in thousands):

	December 31, 2019			
	Total	**Level I**	**Level II**	**Level III**
Financial Assets:				
Loans under fair value option	$ 1,436,194	$ —	$ —	$ 1,436,194
RMBS	189,576	—	—	189,576
CMBS	37,360	—	12,352	25,008
Equity security	12,664	12,664	—	—
Domestic servicing rights	16,917	—	—	16,917
Derivative assets	28,943	—	28,943	—
VIE assets	62,187,175	—		62,187,175
Total	$ 63,908,829	$ 12,664	$ 41,295	$ 63,854,870
Financial Liabilities:				
Derivative liabilities	$ 8,740	$ —	$ 8,740	$ —
VIE liabilities	60,743,494	—	58,206,102	2,537,392
Total	$ 60,752,234	$ —	$ 58,214,842	$ 2,537,392

	December 31, 2018			
	Total	**Level I**	**Level II**	**Level III**
Financial Assets:				
Loans under fair value option	$ 671,282	$ —	$ —	$ 671,282
RMBS	209,079	—	—	209,079
CMBS	41,347	—	16,119	25,228
Equity security	11,893	11,893	—	—
Domestic servicing rights	20,557	—	—	20,557
Derivative assets	52,691	—	52,691	—
VIE assets	53,446,364	—	—	53,446,364
Total	$ 54,453,213	$ 11,893	$ 68,810	$ 54,372,510
Financial Liabilities:				
Derivative liabilities	$ 15,415	$ —	$ 15,415	$ —
VIE liabilities	52,195,042	—	50,753,596	1,441,446
Total	$ 52,210,457	$ —	$ 50,769,011	$ 1,441,446

The changes in financial assets and liabilities classified as Level III are as follows for the years ended December 31, 2019 and 2018 (amounts in thousands):

	Loans at Fair Value	RMBS	CMBS	Domestic Servicing Rights	VIE Assets	VIE Liabilities	Total
January 1, 2018 balance	$ 745,743	247,021	24,191	30,759	51,045,874	(2,188,937)	$ 49,904,651
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	40,217	3,527	2,568	(10,202)	(5,835,225)	1,022,887	(4,776,228)
Net accretion	—	10,932	—	—	—	—	10,932
Included in OCI	—	(4,374)	—	—	—	—	(4,374)
Purchases / Originations	2,276,788	—	3,621	—	—	—	2,280,409
Sales	(2,051,634)	(13,264)	(3,163)	—	—	—	(2,068,061)
Issuances	—	—	—	—	—	(102,474)	(102,474)
Cash repayments / receipts	(144,322)	(34,763)	(23,520)	—	—	(89,747)	(292,352)
Transfers into Level III	—	—	16,845	—	—	(1,043,920)	(1,027,075)
Transfers out of Level III	(195,510)	—	—	—	—	922,985	727,475
Consolidation of VIEs	—	—	—	—	9,885,200	(212,257)	9,672,943
Deconsolidation of VIEs	—	—	4,686	—	(1,649,485)	250,017	(1,394,782)
December 31, 2018 balance	671,282	209,079	25,228	20,557	53,446,364	(1,441,446)	52,931,064
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	71,337	—	505	(3,640)	(1,250,935)	47,308	(1,135,425)
OTTI	—	—	—	—	—	—	—
Net accretion	—	9,945	—	—	—	—	9,945
Included in OCI	—	(2,519)	—	—	—	—	(2,519)
Purchases / Originations	4,015,167	—	5,165	—	—	—	4,020,332
Sales	(2,951,713)	—	(7,326)	—	—	—	(2,959,039)
Issuances	—	—	—	—	—	(116,273)	(116,273)
Cash repayments / receipts	(144,066)	(26,929)	(11,348)	—	—	(16,093)	(198,436)
Transfers into Level III	—	—	5,350	—	—	(1,728,562)	(1,723,212)
Transfers out of Level III	(225,813)	—	—	—	—	991,378	765,565
Consolidation of VIEs	—	—	—	—	10,368,817	(311,748)	10,057,069
Deconsolidation of VIEs	—	—	7,434	—	(377,071)	38,044	(331,593)
December 31, 2019 balance	$ 1,436,194	$ 189,576	$ 25,008	$ 16,917	$ 62,187,175	$ (2,537,392)	$ 61,317,478
Amount of total (losses) gains included in earnings attributable to assets still held at:							
December 31, 2018	$ (3,753)	10,398	(352)	(10,202)	(5,835,225)	1,022,887	$ (4,816,247)
December 31, 2019	(4,459)	9,858	(666)	(3,640)	(1,250,935)	47,308	(1,202,534)

Amounts were transferred from Level II to Level III due to a decrease in the observable relevant market activity and amounts were transferred from Level III to Level II due to an increase in the observable relevant market activity.

The following table presents the fair values, all of which are classified in Level III of the fair value hierarchy, of our financial instruments not carried at fair value on the consolidated balance sheets (amounts in thousands):

	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets not carried at fair value:				
Loans held-for-investment, loans held-for-sale and loans transferred as secured borrowings	$ 10,034,030	$ 10,086,372	$ 9,122,972	$ 9,178,709
HTM debt securities	570,638	568,727	644,149	643,948
Financial liabilities not carried at fair value:				
Secured financing agreements, CLO and secured borrowings on transferred loans	$ 9,834,108	$ 9,826,511	$ 8,757,804	$ 8,662,548
Unsecured senior notes	1,928,622	2,022,283	1,998,831	1,945,160

The following is quantitative information about significant unobservable inputs in our Level III measurements for those assets and liabilities measured at fair value on a recurring basis (dollars in thousands):

	Carrying Value at December 31, 2019	Valuation Technique	Unobservable Input	Range as of (1) December 31, 2019	Range as of (1) December 31, 2018
Loans under fair value option	$ 1,436,194	Discounted cash flow	Yield (b)	3.4% - 5.9%	4.6% - 6.1%
			Duration (c)	1.3 - 11.3 years	2.5 - 14.4 years
RMBS	189,576	Discounted cash flow	Constant prepayment rate (a)	3.1% - 24.9%	3.2% - 25.2%
			Constant default rate (b)	0.5% - 5.0%	1.1% - 5.5%
			Loss severity (b)	0% - 93% (e)	0% - 73% (e)
			Delinquency rate (c)	5% - 29%	4% - 31%
			Servicer advances (a)	27% - 85%	21% - 83%
			Annual coupon deterioration (b)	0% - 1.6%	0% - 1.4%
			Putback amount per projected total collateral loss (d)	0% - 28%	0% - 7%
CMBS	25,008	Discounted cash flow	Yield (b)	0% - 122.9%	0% - 473.5%
			Duration (c)	0 - 9.7 years	0 - 9.7 years
Domestic servicing rights	16,917	Discounted cash flow	Debt yield (a)	7.5%	7.75%
			Discount rate (b)	15%	15%
			Control migration (b)	0% - 80%	0% - 80%
VIE assets	62,187,175	Discounted cash flow	Yield (b)	0% - 690.7%	0% - 290.9%
			Duration (c)	0 - 19.2 years	0 - 20.4 years
VIE liabilities	(2,537,392)	Discounted cash flow	Yield (b)	0% - 690.7%	0% - 290.9%
			Duration (c)	0 - 12.7 years	0 - 13.7 years

(1) The ranges of significant unobservable inputs are represented in percentages and years.

Sensitivity of the Fair Value to Changes in the Unobservable Inputs

(a) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.

(b) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.

(c) Significant increase (decrease) in the unobservable input in isolation would result in either a significantly lower or higher (higher or lower) fair value measurement depending on the structural features of the security in question.

(d) Any delay in the putback recovery date leads to a decrease in fair value for the majority of securities in our RMBS portfolio.

(e) 34% and 55% of the portfolio falls within a range of 45% - 80% as of December 31, 2019 and 2018, respectively.

21. Income Taxes

Certain of our domestic subsidiaries have elected to be treated as taxable REIT subsidiaries ("TRSs"). TRSs permit us to participate in certain activities from which REITs are generally precluded, as long as these activities meet specific criteria, are conducted within the parameters of certain limitations established by the Code and are conducted in entities which elect to be treated as taxable subsidiaries under the Code. To the extent these criteria are met, we will continue to maintain our qualification as a REIT.

Our TRSs engage in various real estate related operations, including special servicing of commercial real estate, originating and securitizing commercial mortgage loans, and investing in entities which engage in real estate-related operations. As of December 31, 2019 and 2018, approximately $1.6 billion and $553.5 million, respectively, of assets were owned by TRS entities. Our TRSs are not consolidated for U.S. federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred taxes is established for the portion of earnings recognized by us with respect to our interest in TRSs.

Our income tax provision consisted of the following for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	For the year ended December 31,		
	2019	**2018**	**2017**
Current			
Federal	$ 4,917	$ 10,508	$ 17,495
State	3,182	3,010	3,115
Foreign	977	293	8
Total current	9,076	13,811	20,618
Deferred			
Federal	3,869	1,189	10,815
State	287	330	89
Total deferred	4,156	1,519	10,904
Total income tax provision	$ 13,232	$ 15,330	$ 31,522

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted which, amongst other corporate and individual tax law changes, lowered the corporate tax rate effective January 1, 2018. The Act reduced our Federal statutory rate from 35% to 21% effective January 1, 2018. As a result of this tax rate change, we remeasured our deferred tax assets, which resulted in a $10.4 million write-off of a portion of these assets. This charge was recognized within income tax provision in our consolidated statement of operations for the year ended December 31, 2017.

Deferred income taxes in our U.S. tax jurisdiction reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table presents the tax effects of temporary differences on net deferred tax assets which are classified in other assets in our consolidated balance sheets (in thousands):

	December 31, 2019	December 31, 2018
Deferred tax asset, net		
Reserves and accruals	$ 4,017	$ 5,161
Domestic intangible assets	8,185	14,022
Lease assets	(1,950)	—
Lease liabilities	2,752	—
Investment in unconsolidated entities	(116)	(1,842)
Deferred income	19	134
Net operating and capital loss carryforwards	885	—
Other U.S. temporary differences	228	702
Net deferred tax assets	$ 14,020	$ 18,177

Unrecognized tax benefits were not material as of and during the years ended December 31, 2019 and 2018. The Company's tax returns are no longer subject to audit for years ended prior to January 1, 2016. The Company had pre-tax income from foreign operations of $0.9 million and $1.4 million during the years ended December 31, 2019 and 2018, respectively. The Company had pre-tax loss from foreign operations of $26.6 million during the year ended December 31, 2017.

The following table is a reconciliation of our U.S. federal income tax determined using our statutory federal tax rate to our reported income tax provision for the years ended December 31, 2019, 2018 and 2017 (dollars in thousands):

	For the Year Ended December 31,					
	2019		2018		2017	
Federal statutory tax rate	$ 115,535	21.0 %	$ 89,571	21.0 %	$ 155,501	35.0 %
REIT and other non-taxable income	(106,301)	(19.3)%	(77,972)	(18.3)%	(135,830)	(30.6)%
State income taxes	3,034	0.5 %	3,038	0.7 %	3,091	0.7 %
Federal benefit of state tax deduction	(637)	(0.1)%	(638)	(0.1)%	(1,082)	(0.2)%
Changes in tax law	—	— %	—	— %	10,365	2.3 %
Other	1,601	0.3 %	1,331	0.3 %	(523)	(0.1)%
Effective tax rate	$ 13,232	2.4 %	$ 15,330	3.6 %	$ 31,522	7.1 %

During the year ended December 31, 2017, we recognized $53.9 million in earnings from unconsolidated entities related to our interest in an investor entity which owns equity in an online real estate company (see Note 8). The income tax effect of these earnings, net of the related Manager incentive fee, was $18.3 million in our consolidated statement of operations for the year ended December 31, 2017.

There were no valuation allowances during the years ended December 31, 2019 and 2018. During the year ended December 31, 2017, $5.5 million of a valuation allowance associated with our deferred tax assets was released to the income tax provision.

22. Commitments and Contingencies

As of December 31, 2019, our Commercial and Residential Lending Segment had future commercial loan funding commitments totaling $3.2 billion, of which we expect to fund $2.9 billion. These future funding commitments primarily relate to construction projects, capital improvements, tenant improvements and leasing commissions.

As of December 31, 2019, our Infrastructure Lending Segment had future infrastructure loan funding commitments totaling $360.6 million, including $145.1 million under revolvers and letters of credit ("LCs"), and $215.5 million under delayed draw term loans. As of December 31, 2019, $19.7 million of revolvers and LCs were outstanding.

In connection with the Infrastructure Lending Segment acquisition, we assumed guarantees of certain borrowers' performance under existing interest rate swaps. As of December 31, 2019, we had seven outstanding guarantees on interest rate swaps maturing between March 2022 and June 2025. Refer to Note 13 for further discussion.

Generally, funding commitments are subject to certain conditions that must be met, such as customary construction draw certifications, minimum debt service coverage ratios or executions of new leases before advances are made to the borrower.

Management is not aware of any other contractual obligations, legal proceedings, or any other contingent obligations incurred in the normal course of business that would have a material adverse effect on our consolidated financial statements.

Lease Commitment Disclosures

Our lease commitments consist of corporate office leases and ground leases for investment properties, all of which are classified as operating leases. We sublease some of the space within our corporate offices to third parties. Our lease costs and sublease income were as follows (in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
Operating lease costs	$ 5,634	$ 4,962	$ 4,699
Short-term lease costs	115	210	96
Sublease income	(1,613)	(1,643)	(1,500)
Total lease cost	$ 4,136	$ 3,529	$ 3,295

Information concerning our operating lease liabilities, which are classified within accounts payable, accrued expenses and other liabilities in our consolidated balance sheet as of December 31, 2019, is as follows (dollars in thousands):

	For the Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities—operating	$ 5,215

	December 31, 2019
Weighted-average remaining lease term	6.0 years
Weighted-average discount rate	4.4 %

Future maturity of operating lease liabilities:	
2020	$ 6,163
2021	3,480
2022	1,272
2023	1,281
2024	6,206
Thereafter	1,002
Total	19,404
Less interest component	(2,316)
Operating lease liability	$ 17,088

23. Segment and Geographic Data

In its operation of the business, management, including our chief operating decision maker, who is our Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis prior to the impact of consolidating securitization VIEs under ASC 810. The segment information within this Note is reported on that basis.

The table below presents our results of operations for the year ended December 31, 2019 by business segment (amounts in thousands):

	Commercial and Residential Lending Segment	Infrastructure Lending Segment	Property Segment	Investing and Servicing Segment	Corporate	Subtotal	Securitization VIEs	Total
Revenues:								
Interest income from loans	$ 610,316	$ 99,580	$ —	$ 14,117	$ —	$ 724,013	$ —	$ 724,013
Interest income from investment securities	81,255	6,318	—	117,663	—	205,236	(128,607)	76,629
Servicing fees	423	—	—	69,962	—	70,385	(16,089)	54,296
Rental income	—	—	287,094	50,872	—	337,966	—	337,966
Other revenues	1,038	751	409	1,317	26	3,541	(26)	3,515
Total revenues	**693,032**	**106,649**	**287,503**	**253,931**	**26**	**1,341,141**	**(144,722)**	**1,196,419**
Costs and expenses:								
Management fees	1,495	—	—	72	117,404	118,971	161	119,132
Interest expense	222,118	62,836	76,838	33,621	113,964	509,377	(648)	508,729
General and administrative	29,481	18,260	6,232	87,115	13,681	154,769	343	155,112
Acquisition and investment pursuit costs	1,351	75	217	(587)	—	1,056	—	1,056
Costs of rental operations	2,691	—	95,370	24,921	—	122,982	—	122,982
Depreciation and amortization	1,091	83	92,561	19,587	—	113,322	—	113,322
Loan loss provision, net	2,616	4,510	—	—	—	7,126	—	7,126
Other expense	307	—	1,693	365	—	2,365	—	2,365
Total costs and expenses	**261,150**	**85,764**	**272,911**	**165,094**	**245,049**	**1,029,968**	**(144)**	**1,029,824**
Other income (loss):								
Change in net assets related to consolidated VIEs	—	—	—	—	—	—	236,309	236,309
Change in fair value of servicing rights	—	—	—	(1,468)	—	(1,468)	(2,172)	(3,640)
Change in fair value of investment securities, net	(1,084)	—	—	89,206	—	88,122	(87,289)	833
Change in fair value of mortgage loans held-for-sale, net	10,462	—	—	61,139	—	71,601	—	71,601
Earnings (loss) from unconsolidated entities	10,649	—	(114,362)	4,166	—	(99,547)	(1,807)	(101,354)
Gain on sale of investments and other assets, net	4,619	3,041	119,746	60,622	—	188,028	—	188,028
(Loss) gain on derivative financial instruments, net	(20,325)	(3,349)	(1,284)	(7,414)	26,062	(6,310)	—	(6,310)
Foreign currency gain (loss), net	17,342	205	37	(2)	—	17,582	—	17,582
Loss on extinguishment of debt	(857)	(11,357)	(4,745)	(845)	(1,466)	(19,270)	—	(19,270)
Other (loss) income, net	—	(50)	(100)	16	(73)	(207)	—	(207)
Total other income (loss)	**20,806**	**(11,510)**	**(708)**	**205,420**	**24,523**	**238,531**	**145,041**	**383,572**
Income (loss) before income taxes	**452,688**	**9,375**	**13,884**	**294,257**	**(220,500)**	**549,704**	**463**	**550,167**
Income tax (provision) benefit	(4,818)	89	(393)	(8,110)	—	(13,232)	—	(13,232)
Net income (loss)	**447,870**	**9,464**	**13,491**	**286,147**	**(220,500)**	**536,472**	**463**	**536,935**
Net income attributable to non-controlling interests	(392)	—	(21,630)	(4,786)	—	(26,808)	(463)	(27,271)
Net income (loss) attributable to Starwood Property Trust, Inc.	**$ 447,478**	**$ 9,464**	**$ (8,139)**	**$ 281,361**	**$ (220,500)**	**$ 509,664**	**$ —**	**$ 509,664**

The table below presents our results of operations for the year ended December 31, 2018 by business segment (amounts in thousands):

	Commercial and Residential Lending Segment	Infrastructure Lending Segment	Property Segment	Investing and Servicing Segment	Corporate	Subtotal	Securitization VIEs	Total
Revenues:								
Interest income from loans	$ 576,564	$ 28,995	$ —	$ 14,984	$ —	$ 620,543	$ —	$ 620,543
Interest income from investment securities	50,063	1,095	—	127,100	—	178,258	(121,419)	56,839
Servicing fees	421	—	—	103,866	—	104,287	(25,521)	78,766
Rental income	—	—	292,453	57,231	—	349,684	—	349,684
Other revenues	902	619	444	1,299	360	3,624	(176)	3,448
Total revenues	**627,950**	**30,709**	**292,897**	**304,480**	**360**	**1,256,396**	**(147,116)**	**1,109,280**
Costs and expenses:								
Management fees	1,838	—	—	72	127,133	129,043	412	129,455
Interest expense	160,769	20,949	75,192	27,459	124,805	409,174	(986)	408,188
General and administrative	26,324	5,631	7,113	84,978	11,747	135,793	339	136,132
Acquisition and investment pursuit costs	2,490	6,806	(46)	(663)	—	8,587	—	8,587
Costs of rental operations	—	—	99,632	27,436	—	127,068	—	127,068
Depreciation and amortization	76	—	110,684	21,889	—	132,649	—	132,649
Loan loss provision, net	34,821	—	—	—	—	34,821	—	34,821
Other expense	307	—	(27)	452	—	732	—	732
Total costs and expenses	**226,625**	**33,386**	**292,548**	**161,623**	**263,685**	**977,867**	**(235)**	**977,632**
Other income (loss):								
Change in net assets related to consolidated VIEs	—	—	—	—	—	—	165,892	165,892
Change in fair value of servicing rights	—	—	—	(14,373)	—	(14,373)	4,171	(10,202)
Change in fair value of investment securities, net	(2,765)	—	—	33,229	—	30,464	(20,119)	10,345
Change in fair value of mortgage loans held-for-sale, net	(6,851)	—	—	47,373	—	40,522	—	40,522
Earnings from unconsolidated entities	5,063	—	3,658	3,809	—	12,530	(1,990)	10,540
Gain on sale of investments and other assets, net	4,019	—	28,468	26,557	—	59,044	—	59,044
Gain (loss) on derivative financial instruments, net	17,654	1,821	22,756	(298)	(7,330)	34,603	—	34,603
Foreign currency loss, net	(7,816)	(1,425)	(2)	(2)	—	(9,245)	—	(9,245)
Loss on extinguishment of debt	(730)	—	(2,661)	(318)	(2,099)	(5,808)	—	(5,808)
Other income (loss), net	43	—	508	(1,363)	—	(812)	—	(812)
Total other income (loss)	**8,617**	**396**	**52,727**	**94,614**	**(9,429)**	**146,925**	**147,954**	**294,879**
Income (loss) before income taxes	**409,942**	**(2,281)**	**53,076**	**237,471**	**(272,754)**	**425,454**	**1,073**	**426,527**
Income tax provision	(2,801)	(292)	(7,549)	(4,688)	—	(15,330)	—	(15,330)
Net income (loss)	**407,141**	**(2,573)**	**45,527**	**232,783**	**(272,754)**	**410,124**	**1,073**	**411,197**
Net income attributable to non-controlling interests	(1,451)	—	(17,623)	(5,220)	—	(24,294)	(1,073)	(25,367)
Net income (loss) attributable to Starwood Property Trust, Inc.	**$ 405,690**	**$ (2,573)**	**$ 27,904**	**$ 227,563**	**$ (272,754)**	**$ 385,830**	**$ —**	**$ 385,830**

The table below presents our results of operations for the year ended December 31, 2017 by business segment (amounts in thousands):

	Commercial and Residential Lending Segment	Property Segment	Investing and Servicing Segment	Corporate	Subtotal	Securitization VIEs	Total
Revenues:							
Interest income from loans	$ 499,806	$ —	$ 14,008	$ —	$ 513,814	$ —	$ 513,814
Interest income from investment securities	46,710	—	134,743	—	181,453	(128,640)	52,813
Servicing fees	711	—	111,158	—	111,869	(50,423)	61,446
Rental income	—	198,466	50,534	—	249,000	—	249,000
Other revenues	686	645	1,794	—	3,125	(310)	2,815
Total revenues	**547,913**	**199,111**	**312,237**	**—**	**1,059,261**	**(179,373)**	**879,888**
Costs and expenses:							
Management fees	1,933	—	72	120,387	122,392	307	122,699
Interest expense	107,167	46,552	19,840	123,201	296,760	(1,094)	295,666
General and administrative	19,981	4,734	94,625	9,911	129,251	336	129,587
Acquisition and investment pursuit costs	3,240	375	(143)	—	3,472	—	3,472
Costs of rental operations	—	72,208	22,050	—	94,258	—	94,258
Depreciation and amortization	66	73,538	19,999	—	93,603	—	93,603
Loan loss provision, net	(5,458)	—	—	—	(5,458)	—	(5,458)
Other expense	149	110	1,163	—	1,422	—	1,422
Total costs and expenses	**127,078**	**197,517**	**157,606**	**253,499**	**735,700**	**(451)**	**735,249**
Other income (loss):							
Change in net assets related to consolidated VIEs	—	—	—	—	—	252,434	252,434
Change in fair value of servicing rights	—	—	(30,315)	—	(30,315)	5,992	(24,323)
Change in fair value of investment securities, net	175	—	54,333	—	54,508	(58,319)	(3,811)
Change in fair value of mortgage loans held-for-sale, net	2,324	—	64,663	—	66,987	—	66,987
Earnings (loss) from unconsolidated entities	3,365	(27,685)	68,192	—	43,872	(13,367)	30,505
(Loss) gain on sale of investments and other assets, net	(59)	77	20,481	—	20,499	—	20,499
Loss on derivative financial instruments, net	(35,262)	(32,333)	(2,497)	(2,440)	(72,532)	—	(72,532)
Foreign currency gain, net	33,651	14	6	—	33,671	—	33,671
OTTI	(109)	—	—	—	(109)	—	(109)
Loss on extinguishment of debt	—	—	—	(5,915)	(5,915)	—	(5,915)
Other income, net	—	7	1,105	1,745	2,857	(613)	2,244
Total other income (loss)	**4,085**	**(59,920)**	**175,968**	**(6,610)**	**113,523**	**186,127**	**299,650**
Income (loss) before income taxes	**424,920**	**(58,326)**	**330,599**	**(260,109)**	**437,084**	**7,205**	**444,289**
Income tax provision	(143)	(249)	(31,130)	—	(31,522)	—	(31,522)
Net income (loss)	**424,777**	**(58,575)**	**299,469**	**(260,109)**	**405,562**	**7,205**	**412,767**
Net income attributable to non-controlling interests	(1,419)	—	(3,373)	—	(4,792)	(7,205)	(11,997)
Net income (loss) attributable to Starwood Property Trust, Inc.	**$ 423,358**	**$ (58,575)**	**$ 296,096**	**$ (260,109)**	**$ 400,770**	**$ —**	**$ 400,770**

The table below presents our consolidated balance sheet as of December 31, 2019 by business segment (amounts in thousands):

	Commercial and Residential Lending Segment	Infrastructure Lending Segment	Property Segment	Investing and Servicing Segment	Corporate	Subtotal	Securitization VIEs	Total
Assets:								
Cash and cash equivalents	$ 26,278	$ 2,209	$ 30,123	$ 61,693	$ 356,864	$ 477,167	$ 1,221	$ 478,388
Restricted cash	36,135	41,967	7,171	10,370	—	95,643	—	95,643
Loans held-for-investment, net	9,187,332	1,397,448	—	1,294	—	10,586,074	—	10,586,074
Loans held-for-sale	605,384	119,528	—	159,238	—	884,150	—	884,150
Investment securities	992,974	45,153	—	1,177,148	—	2,215,275	(1,405,037)	810,238
Properties, net	26,834	—	2,029,024	210,582	—	2,266,440	—	2,266,440
Intangible assets	—	—	47,303	64,644	—	111,947	(26,247)	85,700
Investment in unconsolidated entities	46,921	25,862	—	32,183	—	104,966	(20,637)	84,329
Goodwill	—	119,409	—	140,437	—	259,846	—	259,846
Derivative assets	14,718	7	3	7	14,208	28,943	—	28,943
Accrued interest receivable	45,996	3,134	133	2,388	13,242	64,893	(806)	64,087
Other assets	59,170	6,101	82,910	54,238	8,911	211,330	(7)	211,323
VIE assets, at fair value	—	—	—	—	—	—	62,187,175	62,187,175
Total Assets	**$ 11,041,742**	**$ 1,760,818**	**$ 2,196,667**	**$ 1,914,222**	**$ 393,225**	**$ 17,306,674**	**$ 60,735,662**	**$ 78,042,336**
Liabilities and Equity								
Liabilities:								
Accounts payable, accrued expenses and other liabilities	$ 30,594	$ 6,443	$ 48,370	$ 73,021	$ 53,494	$ 211,922	$ 84	$ 212,006
Related-party payable	—	—	—	5	40,920	40,925	—	40,925
Dividends payable	—	—	—	—	137,427	137,427	—	137,427
Derivative liabilities	7,698	750	—	292	—	8,740	—	8,740
Secured financing agreements, net	5,038,876	1,217,066	1,698,334	574,507	391,215	8,919,998	(13,950)	8,906,048
Collateralized loan obligations, net	928,060	—	—	—	—	928,060	—	928,060
Unsecured senior notes, net	—	—	—	—	1,928,622	1,928,622	—	1,928,622
VIE liabilities, at fair value	—	—	—	—	—	—	60,743,494	60,743,494
Total Liabilities	**6,005,228**	**1,224,259**	**1,746,704**	**647,825**	**2,551,678**	**12,175,694**	**60,729,628**	**72,905,322**
Equity:								
Starwood Property Trust, Inc. Stockholders' Equity:								
Common stock	—	—	—	—	2,874	2,874	—	2,874
Additional paid-in capital	1,522,360	529,668	208,650	(123,210)	2,995,064	5,132,532	—	5,132,532
Treasury stock	—	—	—	—	(104,194)	(104,194)	—	(104,194)
Accumulated other comprehensive income (loss)	50,996	—	—	(64)	—	50,932	—	50,932
Retained earnings (accumulated deficit)	3,463,158	6,891	5,431	1,194,998	(5,052,197)	(381,719)	—	(381,719)
Total Starwood Property Trust, Inc. Stockholders' Equity	5,036,514	536,559	214,081	1,071,724	(2,158,453)	4,700,425	—	4,700,425
Non-controlling interests in consolidated subsidiaries	—	—	235,882	194,673	—	430,555	6,034	436,589
Total Equity	**5,036,514**	**536,559**	**449,963**	**1,266,397**	**(2,158,453)**	**5,130,980**	**6,034**	**5,137,014**
Total Liabilities and Equity	**$ 11,041,742**	**$ 1,760,818**	**$ 2,196,667**	**$ 1,914,222**	**$ 393,225**	**$ 17,306,674**	**$ 60,735,662**	**$ 78,042,336**

The table below presents our consolidated balance sheet as of December 31, 2018 by business segment (amounts in thousands):

	Commercial and Residential Lending Segment	Infrastructure Lending Segment	Property Segment	Investing and Servicing Segment	Corporate	Subtotal	Securitization VIEs	Total
Assets:								
Cash and cash equivalents	$ 14,385	$ 13	$ 27,408	$ 31,449	$ 164,015	$ 237,270	$ 2,554	$ 239,824
Restricted cash	28,324	175,659	25,144	11,679	7,235	248,041	—	248,041
Loans held-for-investment, net	7,072,220	1,456,779	—	3,357	—	8,532,356	—	8,532,356
Loans held-for-sale	670,155	469,775	—	47,622	—	1,187,552	—	1,187,552
Loans transferred as secured borrowings	74,346	—	—	—	—	74,346	—	74,346
Investment securities	1,050,920	60,768	—	998,820	—	2,110,508	(1,204,040)	906,468
Properties, net	—	—	2,512,847	272,043	—	2,784,890	—	2,784,890
Intangible assets	—	—	90,889	78,219	—	169,108	(24,075)	145,033
Investment in unconsolidated entities	35,274	—	114,362	44,129	—	193,765	(22,000)	171,765
Goodwill	—	119,409	—	140,437	—	259,846	—	259,846
Derivative assets	18,174	1,066	32,733	718	—	52,691	—	52,691
Accrued interest receivable	39,862	6,982	359	616	13,177	60,996	(641)	60,355
Other assets	13,958	20,472	67,098	49,363	2,057	152,948	(26)	152,922
VIE assets, at fair value	—	—	—	—	—	—	53,446,364	53,446,364
Total Assets	**$ 9,017,618**	**$ 2,310,923**	**$ 2,870,840**	**$ 1,678,452**	**$ 186,484**	**$ 16,064,317**	**$ 52,198,136**	**$ 68,262,453**
Liabilities and Equity								
Liabilities:								
Accounts payable, accrued expenses and other liabilities	$ 26,508	$ 26,476	$ 67,415	$ 75,655	$ 21,467	$ 217,521	$ 142	$ 217,663
Related-party payable	—	—	—	53	43,990	44,043	—	44,043
Dividends payable	—	—	—	—	133,466	133,466	—	133,466
Derivative liabilities	1,290	477	37	1,423	12,188	15,415	—	15,415
Secured financing agreements, net	4,405,599	1,524,551	1,884,187	585,258	297,920	8,697,515	(13,950)	8,683,565
Unsecured senior notes, net	—	—	—	—	1,998,831	1,998,831	—	1,998,831
Secured borrowings on transferred loans	74,239	—	—	—	—	74,239	—	74,239
VIE liabilities, at fair value	—	—	—	—	—	—	52,195,042	52,195,042
Total Liabilities	**4,507,636**	**1,551,504**	**1,951,639**	**662,389**	**2,507,862**	**11,181,030**	**52,181,234**	**63,362,264**
Equity:								
Starwood Property Trust, Inc. Stockholders' Equity:								
Common stock	—	—	—	—	2,808	2,808	—	2,808
Additional paid-in capital	1,430,503	761,992	645,561	87,779	2,069,321	4,995,156	—	4,995,156
Treasury stock	—	—	—	—	(104,194)	(104,194)	—	(104,194)
Accumulated other comprehensive income (loss)	53,516	—	5,208	(64)	—	58,660	—	58,660
Retained earnings (accumulated deficit)	3,015,676	(2,573)	13,570	913,642	(4,289,313)	(348,998)	—	(348,998)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,499,695	759,419	664,339	1,001,357	(2,321,378)	4,603,432	—	4,603,432
Non-controlling interests in consolidated subsidiaries	10,287	—	254,862	14,706	—	279,855	16,902	296,757
Total Equity	**4,509,982**	**759,419**	**919,201**	**1,016,063**	**(2,321,378)**	**4,883,287**	**16,902**	**4,900,189**
Total Liabilities and Equity	**$ 9,017,618**	**$ 2,310,923**	**$ 2,870,840**	**$ 1,678,452**	**$ 186,484**	**$ 16,064,317**	**$ 52,198,136**	**$ 68,262,453**

Revenues generated from foreign sources were $115.6 million, $90.5 million and $82.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. The majority of our revenues generated from foreign sources are derived from the United Kingdom and Ireland. Refer to Schedules III and IV for a detailed listing of the properties and loans held by the Company, including their respective geographic locations.

24. Quarterly Financial Data (Unaudited)

The following table summarizes our quarterly financial data which, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations (amounts in thousands, except per share amounts):

	For the Three-Month Periods Ended			
	March 31	June 30	September 30	December 31
2019:				
Revenues	$ 310,480	$ 311,181	$ 288,330	$ 286,428
Net income	76,508	132,446	150,001	177,980
Net income attributable to Starwood Property Trust, Inc.	70,383	127,016	140,396	171,869
Earnings per share — Basic	0.25	0.45	0.50	0.61
Earnings per share — Diluted	0.25	0.45	0.49	0.60
2018:				
Revenues	$ 260,587	$ 269,556	$ 285,719	$ 293,418
Net income	104,794	117,090	89,381	99,932
Net income attributable to Starwood Property Trust, Inc.	99,932	109,230	84,536	92,132
Earnings per share — Basic	0.38	0.41	0.31	0.33
Earnings per share — Diluted	0.38	0.40	0.31	0.33

Annual EPS may not equal the sum of each quarter's EPS due to rounding and other computational factors.

25. Subsequent Events

Our significant events subsequent to December 31, 2019 were as follows:

Residential Mortgage Loan Securitization

In February 2020, we securitized residential mortgage loans held-for-sale with a principal balance of $381.3 million.

Dividend Declaration

On February 25, 2020, our board of directors declared a dividend of $0.48 per share for the first quarter of 2020, which is payable on April 15, 2020 to common stockholders of record as of March 31, 2020.

Starwood Property Trust, Inc. and Subsidiaries
Schedule III—Real Estate and Accumulated Depreciation
December 31, 2019
(Dollars in thousands)

Property Type / Geographic Location	Encumbrances	Initial Cost to Company: Land	Initial Cost to Company: Depreciable Property	Costs Capitalized Subsequent to Acquisition(1)	Gross Amounts Carried at December 31, 2019: Land	Gross Amounts Carried at December 31, 2019: Depreciable Property	Gross Amounts Carried at December 31, 2019: Total	Accumulated Depreciation(3)	Acquisition Date
Aggregated Properties									
Hotel—U.S., Midwest (1 property)	$ —	$ —	$ 5,565	$ 929	$ —	$ 6,494	$ 6,494	$ (1,807)	Feb-18
Medical office—U.S., Midwest (7 properties)	78,048	2,764	97,802	503	2,764	98,305	101,069	(9,705)	Dec-16
Medical office—U.S., North East (7 properties)	191,661	11,283	176,999	—	11,283	176,999	188,282	(16,437)	Dec-16
Medical office—U.S., South East (6 properties)	107,252	7,930	117,740	159	7,930	117,899	125,829	(11,555)	Dec-16
Medical office—U.S., South West (8 properties)	125,345	15,921	126,842	667	15,921	127,509	143,430	(13,493)	Dec-16
Medical office—U.S., West (6 properties)	97,694	13,415	107,844	488	13,415	108,332	121,747	(12,243)	Dec-16
Mixed Use—U.S., West (1 property)	8,667	1,002	14,323	246	1,002	14,569	15,571	(1,659)	Feb-16
Multifamily—U.S., South East (60 properties)	930,351	251,084	926,809	31,202	251,113	957,982	1,209,095	(113,293)	Oct-15 to Aug-19
Office—U.S., North East (1 property)	17,474	7,250	10,614	2,538	7,250	13,152	20,402	(1,505)	May-18
Office—U.S., South East (2 properties)	23,809	7,081	31,528	3,503	7,081	35,031	42,112	(7,585)	May-16 to Oct-16
Office—U.S., South West (2 properties)	28,334	8,188	28,019	2,252	8,188	30,271	38,459	(2,735)	Sep-17 to Feb-18
Office—U.S., West (1 property)	15,448	—	4,261	5,592	—	9,853	9,853	(1,301)	Oct-17
Retail—U.S., Mid Atlantic (1 property)	11,438	6,432	6,315	11,940	6,432	18,255	24,687	(1,985)	Mar-16
Retail—U.S., Midwest (7 properties)	79,300	24,384	109,445	1,354	24,384	110,799	135,183	(9,573)	Nov-15 to Sep-17
Retail—U.S., North East (1 property)	11,580	472	12,260	568	472	12,828	13,300	(1,877)	Nov-15
Retail—U.S., South East (5 properties)	42,200	21,353	60,618	49	21,353	60,667	82,020	(4,352)	Sep-16 to Sep-17
Retail—U.S., South West (6 properties)	76,894	37,458	78,579	90	37,458	78,669	116,127	(8,012)	Oct-14 to Sep-17
Retail—U.S., West (2 properties)	33,000	18,633	36,794	—	18,633	36,794	55,427	(2,875)	Sep-17
Self-storage—U.S., North East (1 property)	14,500	2,202	11,498	172	2,202	11,670	13,872	(1,361)	Dec-15
Industrial—U.S., South East (2 properties)	—	10,121	17,295	255	10,121	17,550	27,671	(837)	Mar-19 to Apr-19
	$ 1,892,995	$ 446,973	$ 1,981,150	$ 62,507	$ 447,002	$ 2,043,628	$ 2,490,630 (2)	$ (224,190)	

Notes to Schedule III:

(1) No material costs subsequent to acquisition were capitalized to land.

(2) The aggregate cost for federal income tax purposes is $2.6 billion.

(3) Depreciation is computed based upon estimated useful lives as described in Note 7 to the Consolidated Financial Statements.

The following schedule presents our real estate activity during the years ended December 31, 2019, 2018 and 2017 (in thousands):

	2019	2018	2017
Beginning balance, January 1	$ 2,972,803	$ 2,755,050	$ 1,986,285
Additions during the year:			
Acquisitions (1)	8,472	445,170	725,955
Acquisitions through foreclosure	27,416	—	—
Improvements	30,865	25,764	18,575
Contingent consideration issued	2,877	38,211	—
Measurement period adjustments	—	—	660
Foreign currency translation	—	—	59,508
Total additions	69,630	509,145	804,698
Deductions during the year:			
Costs of real estate sold	(535,417)	(269,989)	(35,774)
Foreign currency translation	(15,702)	(21,260)	—
Other	(684)	(143)	(159)
Total deductions	(551,803)	(291,392)	(35,933)
Ending balance, December 31	$ 2,490,630	$ 2,972,803	$ 2,755,050

(1) Refer to Note 16 to the Consolidated Financial Statements for a discussion of property acquisitions from related parties.

The following schedule presents activity within accumulated depreciation during the years ended December 31, 2019, 2018 and 2017 (in thousands):

	2019	2018	2017
Beginning balance, January 1	$ 187,913	$ 107,569	$ 41,565
Depreciation expense	92,024	91,188	65,253
Disposition/write-offs	(54,260)	(9,389)	(1,785)
Foreign currency translation	(1,487)	(1,455)	2,536
Ending balance, December 31	$ 224,190	$ 187,913	$ 107,569

Starwood Property Trust, Inc. and Subsidiaries
Schedule IV—Mortgage Loans on Real Estate
December 31, 2019
(Dollars in thousands)

Description/ Location	Prior Liens (1)	Face Amount	Carrying Amount	Interest Rate (2)	Payment Terms (3)	Maturity Date (4)	Principal Amount of Delinquent Loans
Individually Significant First Mortgages: (5)							
Mixed Use, Birmingham, United Kingdom	$ —	$ 331,342	$ 327,235	3GBP+4.35%	I/O	1/11/2024	$ —
Multifamily, Various, United Kingdom	—	301,709	299,822	3GBP+4.50%	I/O	10/26/2021	—
Office, Irvine, CA	—	303,516	302,496	L+2.25% to 4.50%	I/O	9/9/2020	—
Aggregated First Mortgages: (5)							
Hotel, International, Floating (3 mortgages)	N/A	N/A	33,265	3EU+4.90%	N/A	2022	—
Hotel, International, Floating (2 mortgages)	N/A	N/A	32,798	L+3.00% to 9.00%	N/A	2021	—
Hotel, Mid Atlantic, Floating (4 mortgages)	N/A	N/A	95,277	L+2.00% to 6.80%	N/A	2022	—
Hotel, Midwest, Floating (4 mortgages)	N/A	N/A	53,482	L+2.25% to 8.63%	N/A	2020	—
Hotel, North East, Floating (4 mortgages)	N/A	N/A	159,787	L+2.50% to 10.00%	N/A	2020-2023	—
Hotel, South East, Floating (4 mortgages)	N/A	N/A	59,462	L+2.40% to 7.40%	N/A	2022	—
Hotel, South West, Floating (8 mortgages)	N/A	N/A	158,577	L+2.00% to 7.67%	N/A	2023	—
Hotel, Various, Floating (9 mortgages)	N/A	N/A	364,603	L+2.00% to 10.50%	N/A	2021	—
Hotel, West, Floating (17 mortgages)	N/A	N/A	414,745	L+2.00% to 9.50%	N/A	2021-2024	—
Industrial, South East, Fixed (4 mortgages)	N/A	N/A	37,365	8.18%	N/A	2024	—
Mixed Use, International, Fixed (1 mortgage)	N/A	N/A	27,069	8.50%	N/A	2021	—
Mixed Use, International, Floating (2 mortgages)	N/A	N/A	98,646	3EU+4.85%	N/A	2023	—
Mixed Use, International, Floating (3 mortgages)	N/A	N/A	118,001	GBP+3.15% to 5.75%	N/A	2020-2022	—
Mixed Use, Mid Atlantic, Floating (1 mortgage)	N/A	N/A	3,796	L+3.15%	N/A	2024	—
Mixed Use, South East, Fixed (4 mortgages)	N/A	N/A	108,133	5.00% to 12.00%	N/A	2024	—
Mixed Use, South West, Floating (10 mortgages)	N/A	N/A	129,970	L+2.50% to 10.00%	N/A	2020-2022	—
Mixed Use, West, Floating (2 mortgages)	N/A	N/A	208,279	L+6.37%	N/A	2020	—
Multi-family, International, Fixed (1 mortgage)	N/A	N/A	10,655	8.00%	N/A	2021	—
Multi-family, Midwest, Fixed (1 mortgage)	N/A	N/A	1,294	6.28%	N/A	2024	—
Multi-family, Mid Atlantic, Floating (2 mortgages)	N/A	N/A	89,970	L+1.75% to 5.75%	N/A	2023	—
Multi-family, North East, Floating (7 mortgages)	N/A	N/A	280,322	L+1.85% to 6.45%	N/A	2021-2023	—
Multi-family, South West, Floating (10 mortgages)	N/A	N/A	183,159	L+2.50% to 3.00%	N/A	2021-2022	—
Multi-family, West, Floating (4 mortgages)	N/A	N/A	24,201	L+3.75% to 9.25%	N/A	2020	—
Office, International, Fixed (1 mortgage)	N/A	N/A	151,772	5.35%	N/A	2021	—
Office, International, Floating (2 mortgages)	N/A	N/A	259,567	3GBP+3.50% to 3.65%	N/A	2023	—
Office, International, Floating (2 mortgages)	N/A	N/A	26,780	EUR+6.00% to 7.80%	N/A	2021-2022	—
Office, Mid Atlantic, Floating (25 mortgages)	N/A	N/A	609,434	L+1.75% to 7.50%	N/A	2021-2023	—
Office, Midwest, Floating (6 mortgages)	N/A	N/A	129,593	L+1.75% to 9.75%	N/A	2021	—
Office, North East, Floating (22 mortgages)	N/A	N/A	826,429	L+2.80% to 12.00%	N/A	2020-2023	—
Office, South East, Floating (4 mortgages)	N/A	N/A	126,443	L+2.00% to 8.25%	N/A	2020	—
Office, South West, Floating (11 mortgages)	N/A	N/A	271,045	L+2.00% to 8.55%	N/A	2020-2023	—
Office, West, Floating (19 mortgages)	N/A	N/A	631,645	L+1.25% to 8.60%	N/A	2021-2024	—
Other, Midwest, Floating (4 mortgages)	N/A	N/A	59,729	L+4.50% to 11.17%	N/A	2021	—
Other, Various, Fixed (1 mortgage)	N/A	N/A	40,583	10.00%	N/A	2025	—
Other, Various, Floating (1 mortgage)	N/A	N/A	76,583	3M L+4.00%	N/A	2024	—
Other, West, Floating (4 mortgages)	N/A	N/A	24,356	L+7.00%	N/A	2021	—
Residential, North East, Fixed (1 mortgage)	N/A	N/A	31,855	8.00%	N/A	2020	16,167
Residential, North East, Floating (16 mortgages)	N/A	N/A	727,851	L+2.50% to 8.60%	N/A	2020-2022	49,149
Residential, West, Floating (3 mortgages)	N/A	N/A	34,118	L+2.75% to 8.75%	N/A	2021	—
Residential, Various, Fixed (1,197 mortgages)	N/A	N/A	671,572	3.25% to 9.00%	N/A	2013-2019	5,619
Retail, Midwest, Floating (4 mortgages)	N/A	N/A	40,436	L+2.75% to 10.75%	N/A	2020	—
Retail, North East, Floating (1 mortgage)	N/A	N/A	167,678	L+7.25%	N/A	2021	—
Retail, South West, Floating (8 mortgages)	N/A	N/A	71,350	L+2.25% to 15.25%	N/A	2020	—
Retail, West, Fixed (1 mortgage)	N/A	N/A	503	7.26%	N/A	2023	—
Loans Held-for-Sale, Various, Fixed	N/A	N/A	764,622	3.40% to 9.13%	N/A	2015-2029	2,528
Aggregated Subordinated and Mezzanine Loans: (5)							
Hotel, North East, Floating (2 mortgages)	N/A	N/A	36,167	L+7.55% to 9.00%	N/A	2021	—
Hotel, South East, Floating (3 mortgages)	N/A	N/A	82,947	L+6.75% to 7.04%	N/A	2021-2022	—
Industrial, South East, Fixed (1 mortgage)	N/A	N/A	2,337	8.18%	N/A	2024	—
Industrial, South East, Floating (2 mortgages)	N/A	N/A	21,882	L+12.75%	N/A	2020	—
Mixed Use, International, Floating (1 mortgage)	N/A	N/A	56,515	3EU+7.25%	N/A	2022	—
Mixed Use, South East, Floating (2 mortgages)	N/A	N/A	25,628	L+5.50% to 10.25%	N/A	2021	—
Mixed Use, South West, Floating (1 mortgage)	N/A	N/A	83,353	L+11.85%	N/A	2021	—
Multi-family, Mid Atlantic, Floating (1 mortgage)	N/A	N/A	24,330	L+9.75%	N/A	2022	—
Multi-family, North East, Floating (3 mortgages)	N/A	N/A	62,780	L+7.10% to 9.25%	N/A	2021-2023	—
Office, International, Floating (2 mortgages)	N/A	N/A	23,491	3EU+8.95%	N/A	2024	—
Office, North East, Fixed (2 mortgages)	N/A	N/A	34,456	8.72%	N/A	2023	—
Office, South East, Fixed (1 mortgage)	N/A	N/A	7,245	8.25%	N/A	2020	—
Office, West, Floating (1 mortgage)	N/A	N/A	25,300	L+6.67%	N/A	2022	—
Other, West, Floating (2 mortgages)	N/A	N/A	61,577	L+11.00%	N/A	2021	—
Retail, Midwest, Fixed (2 mortgages)	N/A	N/A	11,977	7.16%	N/A	2024	11,977

Description/ Location	Prior Liens (1)	Face Amount	Carrying Amount	Interest Rate (2)	Payment Terms (3)	Maturity Date (4)	Principal Amount of Delinquent Loans
Loan Loss Allowance	—	—	(33,415)				—
Prepaid Loan Costs, Net	—	—	(2,230)				—
			$ 9,890,693 (6)				$ 85,440

Notes to Schedule IV:

(1) Represents third party priority liens. Third party portions of pari-passu participations are not considered prior liens. Additionally, excludes the outstanding debt on third party joint ventures of underlying borrowers.

(2) L = one month LIBOR rate, 3M L = three month LIBOR rate, GBP = one month GBP LIBOR rate, 3GBP = three month GBP LIBOR rate, 3EU = three month EURO LIBOR rate.

(3) I/O = interest only until maturity.

(4) Based on management's judgment of extension options being exercised.

(5) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan.

(6) The aggregate cost for federal income tax purposes is $10.0 billion.

The following schedule presents activity within our Commercial and Residential Lending Segment and Investing and Servicing Segment loan portfolios during the years ended December 31, 2019, 2018 and 2017 (amounts in thousands):

	For the year ended December 31,		
	2019	2018	2017
Balance at January 1	$ 7,806,699	$ 7,357,034	$ 5,946,274
Acquisitions/originations/additional funding	8,174,321	6,543,873	5,494,837
Capitalized interest	109,978	62,445	73,784
Basis of loans sold	(3,921,171)	(3,082,347)	(1,634,717)
Loan maturities/principal repayments	(2,387,843)	(3,086,107)	(2,657,696)
Discount accretion/premium amortization	29,775	37,408	38,560
Changes in fair value	71,601	40,522	66,987
Unrealized foreign currency translation gain (loss)	38,050	(26,645)	42,356
Loan loss provision, net	(2,616)	(34,821)	5,458
Loan foreclosures	(27,303)	—	—
Transfer to/from other asset classifications	(798)	(4,663)	(18,809)
Balance at December 31	$ 9,890,693	$ 7,806,699	$ 7,357,034

Refer to Note 16 to the Consolidated Financial Statements for a discussion of loan activity with related parties.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2019, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in *Internal Control—Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this assessment, our management has concluded that our internal control over financial reporting as of December 31, 2019 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the U.S., and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report included in this Form 10-K, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2019.

Changes to Internal Control Over Financial Reporting. No change in internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None noted.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this Item with respect to members of our board of directors and with respect to our Audit Committee will be contained in the Proxy Statement for the 2020 Annual Meeting of Shareholders ("2020 Proxy Statement") under the captions "Election of Directors" and "Board and Committee Meetings—Audit Committee" and in the chart disclosing Audit Committee membership and is incorporated herein by this reference. Information required by this Item with respect to our executive officers will be contained in the 2020 Proxy Statement under the caption "Executive Officers," and is incorporated herein by this reference. Information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 will be contained in the 2020 Proxy Statement under the caption "Delinquent Section 16(a) Reports," and is incorporated herein by this reference.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics for all directors, officers and employees of the Company which is available on our website at http://ir.starwoodpropertytrust.com/govdocs. In addition, stockholders may request a free copy of the Code of Business Conduct and Ethics from:

Starwood Property Trust, Inc.
Attention: Investor Relations
591 West Putnam Avenue
Greenwich, CT 06830
(202) 422-7700

We have also adopted a Code of Ethics for our Principal Executive Officer and Senior Financial Officers setting forth a code of ethics applicable to our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer, which is available on our website at http://ir.starwoodpropertytrust.com/govdocs. Stockholders may request a free copy of the Code of Ethics for Principal Executive Officer and Senior Financial Officers from the address and phone number set forth above.

Corporate Governance Guidelines

We have also adopted Corporate Governance Guidelines, which are available on our website at http://ir.starwoodpropertytrust.com/govdocs. Stockholders may request a free copy of the Corporate Governance Guidelines from the address and phone number set forth above.

Item 11. Executive Compensation.

Information required by this Item will be contained in the 2020 Proxy Statement under the captions "Executive Compensation" and "Compensation of Directors" and is incorporated herein by this reference, provided that the Compensation Committee Report shall not be deemed to be "filed" with this Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this Item will be contained in the 2020 Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners, Directors and Management" and "Executive Compensation – Equity Compensation Plan Information" and is incorporated herein by this reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item will be contained in the 2020 Proxy Statement under the captions "Certain Relationships and Related Transactions" and "Corporate Governance—Determination of Director Independence" and is incorporated herein by this reference.

Item 14. Principal Accountant Fees and Services.

Information required by this Item will be contained in the 2020 Proxy Statement under the captions "Independent Registered Public Accounting Firm" and "Independent Registered Public Accounting Firm – Pre-Approval Policies for Services of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Documents filed as part of this report:

(1) Financial Statements:

See Item 8—"Financial Statements and Supplementary Data", filed herewith, for a list of financial statements.

(2) Financial Statement Schedules:

Included within Item 8:

Schedule III—Real Estate and Accumulated Depreciation

Schedule IV—Mortgage Loans on Real Estate

(3) Exhibits:

Exhibit No.	Description
2.1	Asset Purchase Agreement, dated August 7, 2018, between Starwood Property Trust, Inc., as buyer, and GE Capital Global Holdings, LLC, as seller (Incorporated by reference to Exhibit 2.1 of the Company's Quarterly Report on Form 10-Q filed November 9, 2018)
3.1	Articles of Amendment and Restatement of Starwood Property Trust, Inc. (Incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009)
3.2	Amended and Restated Bylaws of Starwood Property Trust, Inc. (Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed March 17, 2014)
4.1	Indenture for Senior Debt Securities between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.6 of the Company's Registration Statement on Form S-3 (File No. 333-210560) filed April 1, 2016)
4.2	First Supplemental Indenture, dated as of February 15, 2013, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed February 15, 2013)
4.3	Second Supplemental Indenture, dated as of July 3, 2013, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed July 3, 2013)
4.4	Third Supplemental Indenture, dated as of October 8, 2014, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed October 8, 2014)

Exhibit No.	Description
4.5	Fourth Supplemental Indenture, dated as of March 29, 2017, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company’s Current Report on Form 8-K filed March 29, 2017)
4.6	Form of 4.375% Convertible Senior Notes due 2023 (Incorporated by reference as Exhibit A to Exhibit 4.2 of the Company’s Current Report on Form 8-K filed March 29, 2017)
4.7	Indenture, dated as of December 16, 2016, between Starwood Property Trust, Inc. and The Bank of New York Mellon, as trustee (including the form of the Company’s 5.000% Senior Notes due 2021) (Incorporated by reference to Exhibit 4.1 of the Company’s Current Report on Form 8-K filed December 21, 2016)
4.8	Registration Rights Agreement, dated as of December 16, 2016, between Starwood Property Trust, Inc. and J.P. Morgan Securities LLC, as representative of the initial purchasers (Incorporated by reference to Exhibit 4.2 of the Company’s Current Report on Form 8-K filed December 21, 2016)
4.9	Indenture, dated as of December 4, 2017, between Starwood Property Trust, Inc. and The Bank of New York Mellon, as trustee (including the form of Starwood Property Trust, Inc.’s 4.750% Senior Notes due 2025) (Incorporated by reference to Exhibit 4.1 of the Company’s Current Report on Form 8-K filed December 4, 2017)
4.10	Registration Rights Agreement, dated as of December 4, 2017, between Starwood Property Trust, Inc. and J.P. Morgan Securities LLC, as representative of the initial purchasers (Incorporated by reference to Exhibit 4.2 of the Company’s Current Report on Form 8-K filed December 4, 2017)
4.11	Registration Rights Agreement, dated as of December 28, 2017, among Starwood Property Trust, Inc. and the persons listed on Schedule I thereto (Incorporated by reference to Exhibit 4.13 of the Company’s Annual Report on Form 10-K filed February 28, 2018)
4.12	Indenture, dated as of January 29, 2018, between Starwood Property Trust, Inc. and The Bank of New York Mellon, as trustee (including the form of Starwood Property Trust, Inc.’s 3.625% Senior Notes due 2021) (Incorporated by reference to Exhibit 4.1 of the Company’s Current Report on Form 8-K filed January 29, 2018)
4.13	Registration Rights Agreement, dated as of January 29, 2018, between Starwood Property Trust, Inc. and J.P. Morgan Securities LLC, as representative of the initial purchasers (Incorporated by reference to Exhibit 4.2 of the Company’s Current Report on Form 8-K filed January 29, 2018)
4.14	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934
10.1	Registration Rights Agreement, dated August 17, 2009, among Starwood Property Trust, Inc., SPT Investment, LLC and SPT Management, LLC (Incorporated by reference to Exhibit 10.2 of the Company’s Quarterly Report on Form 10-Q filed November 16, 2009)
10.2	Management Agreement, dated August 17, 2009, among SPT Management, LLC and Starwood Property Trust, Inc. (Incorporated by reference to Exhibit 10.3 of the Company’s Quarterly Report on Form 10-Q filed November 16, 2009)
10.3	Amendment No. 1, dated May 7, 2012, to Management Agreement, dated August 17, 2009, as amended, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed May 8, 2012)

Exhibit No.	Description
10.4	Amendment No. 2, dated December 4, 2014, to Management Agreement, dated August 17, 2009, as amended, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed December 5, 2014)
10.5	Amendment No. 3, dated August 4, 2016, to Management Agreement, dated August 17, 2009, as amended, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.5 of the Company’s Annual Report on Form 10-K filed February 23, 2017)
10.6	Amendment No. 4, dated February 15, 2018 and effective as of December 28, 2017, to Management Agreement, dated August 17, 2009, as amended, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed February 22, 2018)
10.7	Co-Investment and Allocation Agreement, dated August 17, 2009, among Starwood Property Trust, Inc., SPT Management, LLC and Starwood Capital Group Global, L.P. (Incorporated by reference to Exhibit 10.4 of the Company’s Quarterly Report on Form 10-Q filed November 16, 2009)
10.8	Amendment No. 1, dated as of June 19, 2015, to the Co-Investment and Allocation Agreement, dated as of August 17, 2009, by and among Starwood Property Trust, Inc., SPT Management, LLC and Starwood Capital Group Global, L.P. (Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed June 25, 2015)
10.9	Amendment No. 2, dated as of November 21, 2016, to the Co-Investment and Allocation Agreement, dated as of August 17, 2009, by and among Starwood Property Trust, Inc., SPT Management, LLC and Starwood Capital Group Global, L.P. (Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed November 22, 2016)
10.10	Starwood Property Trust, Inc. 2017 Manager Equity Plan (Incorporated by reference to Appendix A of the Company’s Definitive Proxy Statement on Schedule 14A filed March 31, 2017)*
10.11	Restricted Stock Unit Award Agreement (Starwood Property Trust, Inc. 2017 Manager Equity Plan) (Incorporated by reference to Exhibit 10.2 of the Company’s Quarterly Report on Form 10-Q filed November 8, 2019)*
10.12	Starwood Property Trust, Inc. 2017 Equity Plan (Incorporated by reference to Appendix B of the Company’s Definitive Proxy Statement on Schedule 14A filed March 31, 2017)*
10.13	Form of Restricted Stock Award Agreement for Independent Directors (Starwood Property Trust, Inc. 2017 Equity Plan) (Incorporated by reference to Exhibit 10.3 of the Company’s Quarterly Report on Form 10-Q filed November 8, 2019)*
10.14	Form of Restricted Stock Award Agreement (Starwood Property Trust, Inc. 2017 Equity Plan) (Incorporated by reference to Exhibit 10.7 of the Company’s Quarterly Report on Form 10-Q filed May 8, 2019)*
10.15	Uncommitted Master Repurchase Agreement, dated as of December 10, 2015, by and among Starwood Property Mortgage Sub-14, L.L.C., Starwood Property Mortgage Sub-14-A, L.L.C. and JPMorgan Chase Bank, National Association (Incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed December 16, 2015)

Exhibit No.	Description
10.16	First through Eighth Amendments to Uncommitted Master Repurchase Agreement by and among JPMorgan Chase Bank, National Association, Starwood Property Mortgage Sub-14, L.L.C., Starwood Property Mortgage Sub-14-A, L.L.C., Starwood Mortgage Funding VI LLC and SPT CA Fundings 2, LLC
10.17	Form of Indemnification Agreement for Directors and Officers (Incorporated by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K filed February 25, 2016)*
10.18	Tax Protection Agreement, dated as of December 28, 2017, among SPT Dolphin Intermediate LLC, SPT Dolphin Parent LLC and the persons listed on Annex A thereto (Incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K filed February 28, 2018)
10.19	Amended and Restated Advances, Collateral Pledge and Security Agreement, dated as of July 7, 2017, between the Federal Home Loan Bank of Chicago ("FHLB") and Prospect Mortgage Insurance, LLC ("PMI") (the "Amended and Restated Advances, Collateral Pledge and Security Agreement") (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q filed May 8, 2019)
10.20	Supplement to Amended and Restated Advances, Collateral Pledge and Security Agreement, dated as of July 7, 2017, among PMI, SMRF Trust III (the "SMRF Trust III"), SMRF Trust III-A ("SMRF Trust III-A", and together with SMRF Trust III, the "Trusts"), Wilmington Trust, National Association, solely as Delaware Trustee of the Trusts, and the FHLB (the "Supplement to Amended and Restated Advances, Collateral Pledge and Security Agreement") (Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed May 8, 2019)
10.21	Letter Agreement, dated March 15, 2019, between PMI and FHLB supplementing the Amended and Restated Advances, Collateral Pledge and Security Agreement dated July 7, 2017 and the Supplement to Amended and Restated Advances, Collateral Pledge and Security Agreement dated July 7, 2017, between PMI and the FHLB (Incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q filed May 8, 2019)
10.22	Sixth Amended and Restated Master Repurchase and Securities Contract, dated as of April 10, 2019, among Starwood Property Mortgage Sub-2, L.L.C., Starwood Property Mortgage Sub-2-A, L.L.C. and SPT CA Fundings 2, LLC, as sellers, and Wells Fargo, National Association, as buyer (Incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q filed May 8, 2019)
10.23	Indenture, dated as of August 15, 2019, by and among STWD 2019-FL1, Ltd., as Issuer, STWD 2019-FL1, LLC, as Co-Issuer, Starwood Property Mortgage, L.L.C., as Advancing Agent, Wilmington Trust, National Association, as Trustee, and Wells Fargo Bank, National Association, as Note Administrator and Custodian (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 21, 2019)
10.24	Second Amended and Restated Guaranty, dated November 22, 2019, made by Starwood Property Trust, Inc. in favor of the FHLB
10.25	Fifth Amended and Restated Guarantee and Security Agreement, dated as of April 10, 2019, made by Starwood Property Trust, Inc. in favor of Wells Fargo Bank, National Association

Exhibit No.	Description
10.26	Guarantee Agreement and First and Second Amendments thereto made by Starwood Property Trust, Inc. in favor of JPMorgan Chase Bank, National Association
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Indicates management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Starwood Property Trust, Inc.

Date: February 25, 2020

By: /s/ BARRY S. STERNLICHT
Barry S. Sternlicht
Chief Executive Officer and Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 25, 2020	By:	/s/ BARRY S. STERNLICHT Barry S. Sternlicht Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
Date: February 25, 2020	By:	/s/ RINA PANIRY Rina Paniry Chief Financial Officer, Treasurer, Chief Accounting Officer and Principal Financial Officer
Date: February 25, 2020	By:	/s/ RICHARD D. BRONSON Richard D. Bronson Director
Date: February 25, 2020	By:	/s/ JEFFREY G. DISHNER Jeffrey G. Dishner Director
Date: February 25, 2020	By:	/s/ CAMILLE J. DOUGLAS Camille J. Douglas Director
Date: February 25, 2020	By:	/s/ SOLOMON J. KUMIN Solomon J. Kumin Director
Date: February 25, 2020	By:	/s/ FRED S. RIDLEY Fred S. Ridley Director
Date: February 25, 2020	By:	/s/ STRAUSS ZELNICK Strauss Zelnick Director

EMBASSY SUITES BY HILTON NEW YORK MANHATTAN TIMES SQUARE, NEW YORK, NY

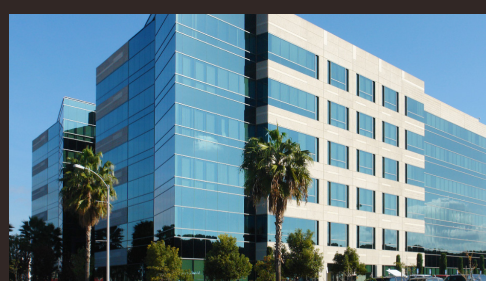

DUBLIN CORPORATE CENTER, DUBLIN, CA


QUEENS MULTIFAMILY PORTFOLIO, QUEENS, NY

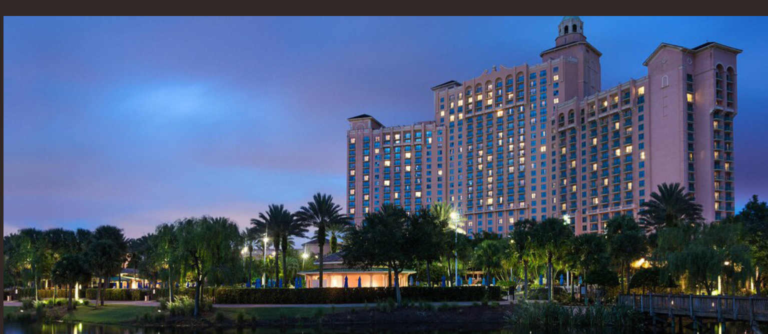

ONE CLINTON, BROOKLYN, NY


HYATT REGENCY CINCINNATI, CINCINNATI, OH


IKOS ANDALUSIA, COSTA DEL SOL, SPAIN


STADIUM GATEWAY, ANAHEIM, CA

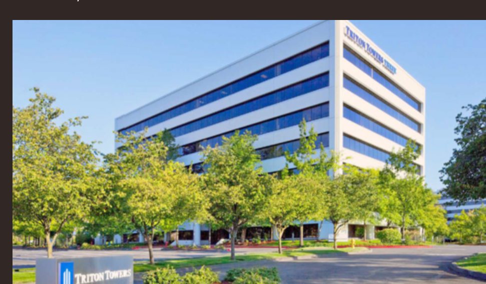

ONNI SOUTH LAKE UNION, SEATTLE, WA


JW MARRIOTT ORLANDO, GRANDE LAKES, ORLANDO, FL


400 LAKE SHORE DRIVE, CHICAGO, IL


THE MUSEUM BUILDING, LOS ANGELES, CA


PIAZZA TERMINAL, PHILADELPHIA, PA


TRITON TOWERS, RENTON, WA

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