STARWOOD PROPERTY TRUST, INC.
Form 10-K
February 28, 2019
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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, 2018
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	Name of each exchange on which registered
Common Stock, $0.01 par value per share	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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

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 30, 2018, the aggregate market value of the voting stock held by non affiliates was $5,521,212,127 based on the reported last sale price of our common stock on June 29, 2018. 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 21, 2019 was 279,277,283.

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 30, 2019.

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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 recently completed acquisition of the project finance origination, underwriting and capital markets business of GE Capital Global Holdings, LLC into our business and to achieve the benefits that we anticipate from the acquisition;
· national and local economic and business conditions;
· general and local commercial and residential real estate property conditions;
· changes in federal government policies;
· changes in federal, state and local governmental laws and regulations;
· increased competition from entities engaged in mortgage lending and securities investing activities;
· changes in interest rates; and
· the availability of, and costs associated with, sources of liquidity.

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

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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, 2018. 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, 2018 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," formerly known as "Real estate lending")—engages primarily in originating, acquiring, financing and managing commercial and residential first mortgages, subordinated mortgages, mezzanine loans, preferred equity, 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.

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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 and controlled 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;

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- 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.

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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;

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- 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.

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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, 2018 and 2017 (dollars in thousands):

	Face Amount	Carrying Value		Asset Specific Financing	Net Investment	Vintage	Unlevered Return on Asset	
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			
December 31, 2017							
First mortgages (1)	$ 5,839,827	$ 5,815,008	$ 2,636,881	$ 3,178,127	1989-2017	6.7	%
Subordinated mortgages	177,386	177,115	—	177,115	1998-2014	11.8	%
Mezzanine loans (1)	545,355	545,299	—	545,299	2005-2017	11.5	%
Other loans	29,320	25,607	—	25,607	1999-2017	12.5	%
Loans held-for-sale, fair value option, residential	594,105	613,287	444,539	168,748	2013-2017	6.0	%
Loans transferred as secured borrowings	75,000	74,403	74,185	218	N/A		
Loan loss allowance	—	(4,330)	—	(4,330)	N/A		
RMBS, available-for-sale	366,711	247,021	117,534	129,487	2003-2007	10.0	%
HTM debt securities (3)	437,531	433,468	267,533	165,935	2013-2017	5.8	%
Equity security	12,350	13,523	—	13,523	N/A		
Investment in unconsolidated entities	N/A	45,028	—	45,028	N/A		
	$ 8,077,585	$ 7,985,429	$ 3,540,672	$ 4,444,757			

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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 $1.0 billion and $851.1 million being classified as first mortgages as of December 31, 2018 and 2017, respectively.

(2) Includes $87.9 million of RMBS and $158.7 million of CMBS reflected in “VIE liabilities” in our consolidated balance sheet as of December 31, 2018, in accordance with Accounting Standards Codification (“ASC”) 810 as it relates to the consolidation of securitization VIEs.

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

As of December 31, 2018 and 2017, our Commercial and Residential Lending Segment’s investment portfolio, excluding loans held-for-sale, RMBS and other investments, had the following characteristics based on carrying values:

	As of December 31,			
Collateral Property Type	2018		2017	
Office	35.0	%	33.7	%
Hotel	23.5	%	16.8	%
Multifamily	15.4	%	9.4	%
Mixed Use	11.9	%	18.4	%
Residential	4.9	%	7.1	%
Retail	2.4	%	7.8	%
Industrial	1.7	%	2.3	%
Parking	—	%	2.2	%
Other	5.2	%	2.3	%
	100.0	%	100.0	%

	As of December 31,			
Geographic Location	2018		2017	
North East	28.7	%	31.5	%
West	22.7	%	21.6	%
South West	14.0	%	12.1	%
International	11.0	%	12.4	%
South East	9.9	%	12.6	%
Midwest	6.9	%	5.1	%
Mid Atlantic	6.8	%	4.7	%
	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.

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The weighted average coupon for first mortgages, mezzanine loans and other loans held-for-investment originated and acquired by the Commercial and Residential Lending Segment during the year ended December 31, 2018 was 7.0%, 7.7% and 7.1%, respectively. The following table summarizes the activity in the Commercial and Residential Lending Segment's loan portfolio and the associated changes in future funding commitments associated with these loans during the year ended December 31, 2018 (amounts in thousands):

	Carrying Value	Future Funding Commitments
Balance at January 1, 2018	$ 7,246,389	$ 1,578,688
Acquisitions/originations	4,588,526	1,637,627
Additional funding and expired commitments	556,638	(595,093)
Capitalized interest (1)	63,047	—
Basis of loans sold	(1,518,914)	(106,170)
Loan maturities/principal repayments	(3,088,683)	(303,551)
Discount accretion/premium amortization	37,999	—
Change in fair value	(6,851)	—
Unrealized foreign currency translation loss	(26,645)	(7,162)
Change in loan loss allowance, net	(34,821)	—
Transfer to/from other asset classifications	36	—
Balance at December 31, 2018	$ 7,816,721	$ 2,204,339

(1) Represents accrued interest income on loans whose terms do not require current payment of interest.

As of December 31, 2018, the Commercial and Residential Lending Segment's loans held for investment and HTM securities had a weighted average maturity of 2.1 years, inclusive of extension options that management believes are probable of exercise. The table below shows the carrying value expected to mature annually for our loans held for investment and HTM securities (amounts in thousands, except number of investments maturing).

Year of Maturity	Number of Investments Maturing (1)	Carrying Value (1)	% of Total
2019	68	$ 1,693,360	22.0 %
2020	71	2,068,732	26.9 %
2021	95	2,577,338	33.5 %
2022	19	491,217	6.4 %
2023	12	492,683	6.4 %
2024	18	330,447	4.3 %
2025	1	40,975	0.5 %
Total	284	$ 7,694,752	100.0 %

(1) Excludes loans held-for-sale, loans transferred as secured borrowings, RMBS, equity security and investments in unconsolidated entities. Carrying value also excludes loan loss allowance.

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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, 2018 (dollars in thousands):

	Face Amount	Carrying Value	Asset Specific Financing	Net Investment	Unlevered Return on Asset
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, 2018, our Infrastructure Lending Segment's investment portfolio had the following characteristics based on carrying values:

Collateral Type	December 31, 2018
Natural gas power	54.3 %
Renewable power	30.8 %
Midstream/downstream oil & gas	9.3 %
Other thermal power	5.1 %
Upstream oil & gas	0.5 %
	100.0 %

Geographic Location	December 31, 2018
U.S. Regions:	
North East	32.8 %
Midwest	15.9 %
South West	12.9 %
West	4.7 %
Mid-Atlantic	4.6 %
South East	3.4 %
International:	
Mexico	12.5 %
United Kingdom	4.7 %
Ireland	2.4 %
Other	6.1 %

100.0	%

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The weighted average coupon for first priority infrastructure loans and HTM securities during the year ended December 31, 2018 was 5.7%. The following table summarizes the activity in the Infrastructure Lending Segment's portfolio and the associated changes in future funding commitments associated with the portfolio during the year ended December 31, 2018 (amounts in thousands):

	Carrying Value	Future Funding Commitments
Balance at January 1, 2018	$ —	$ —
Acquisition of Infrastructure Lending Portfolio	2,034,400	466,340
Acquisitions/originations	81,842	12,915
Additional funding and expired commitments	63,963	(64,506)
Loan maturities/principal repayments (revolvers)	(14,697)	(4,694)
Loan maturities/principal repayments (all other)	(172,359)	—
Discount accretion/premium amortization	(131)	—
Unrealized foreign currency translation loss	(5,696)	(395)
Balance at December 31, 2018	$ 1,987,322	$ 409,660

As of December 31, 2018, the Infrastructure Lending Segment's first priority infrastructure loans and HTM securities had a weighted average maturity of 4.9 years, inclusive of extension options that management believes are probable of exercise. The table below shows the carrying value expected to mature annually for our first priority infrastructure loans and HTM securities (amounts in thousands, except number of investments maturing).

Year of Maturity	Number of Investments Maturing (1)	Carrying Value (1)	% of Total	
2019	—	$ 70,584	4.7	%
2020	5	399,131	26.3	%
2021	5	138,541	9.1	%
2022	8	220,151	14.5	%
2023	3	273,489	18.0	%
2024	6	197,494	13.0	%
2025	4	122,287	8.1	%
2026	3	27,603	1.8	%
2027	—	7,147	0.5	%
2028 and thereafter	5	61,120	4.0	%
Total	39	$ 1,517,547	100.0	%

(1) Excludes loans held-for-sale.

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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, 2018 and 2017 (amounts in thousands):

	As of December 31,	
	2018	2017
Properties, net	$ 2,512,847	$ 2,364,806
Lease intangibles, net	87,729	111,631
Investment in unconsolidated entities	114,362	110,704
	$ 2,714,938	$ 2,587,141

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, 2018 (dollars in thousands):

	Carrying Value	Asset Specific Financing	Net Investment	Occupancy Rate		Weighted Average Remaining Lease Term
Office—Medical Office Portfolio	$ 760,532	$ 486,284	$ 274,248	92.9	%	6.4 years
Office—Ireland Portfolio	503,210	349,238	153,972	98.7	%	9.8 years
Multifamily residential—Ireland Portfolio	18,284	11,887	6,397	100.0	%	0.3 years
Multifamily residential—Woodstar I Portfolio	623,506	407,264	216,242	98.3	%	0.5 years
Multifamily residential—Woodstar II Portfolio	598,617	437,441	161,176	99.9	%	0.5 years
Retail—Master Lease Portfolio	343,790	192,073	151,717	100.0	%	23.4 years
Subtotal—undepreciated carrying value	2,847,939	1,884,187	963,752			
Accumulated depreciation and amortization	(247,363)	—	(247,363)			
Net carrying value	$ 2,600,576	$ 1,884,187	$ 716,389			

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

As of December 31, 2018 and 2017, our Property Segment's investment portfolio had the following geographic characteristics based on carrying values:

	As of December 31,			
Geographic Location	2018		2017	
Ireland	17.7	%	20.1	%
U.S. Regions:				
South East	50.8	%	38.4	%
South West	8.6	%	9.4	%
Midwest	8.3	%	12.2	%
North East	8.1	%	8.8	%
West	6.5	%	9.2	%
Mid-Atlantic	—	%	1.9	%
	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.

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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, 2018 and 2017 (amounts in thousands):

	Face Amount	Carrying Value		Asset Specific Financing	Net Investment
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		—	44,129
Properties, net	N/A	272,043		230,995	41,048
	$ 2,921,987	$ 1,439,930		$ 585,258	$ 854,672
December 31, 2017					
CMBS, fair value option	$ 3,098,574	$ 1,024,143	(1)	$ 145,456	$ 878,687
Intangible assets - servicing rights	N/A	59,005	(2)	—	59,005
Lease intangibles, net	N/A	31,000		—	31,000
Loans held-for-sale, fair value option, commercial	132,393	132,456		66,377	66,079
Loans held-for-investment	3,796	3,796		—	3,796
Investment in unconsolidated entities	N/A	50,759		—	50,759
Properties, net	N/A	282,675		199,693	82,982
	$ 3,234,763	$ 1,583,834		$ 411,526	$ 1,172,308

(1) Includes $957.5 billion and $1.0 billion of CMBS reflected in “VIE liabilities” in accordance with ASC 810 as of December 31, 2018 and 2017, respectively.

(2) Includes $24.1 million and $28.2 million of servicing rights intangibles reflected in “VIE assets” in accordance with ASC 810 as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, the Investing and Servicing Segment’s CMBS had a weighted average expected maturity of 7.7 years. The table below shows the CMBS carrying value expected to mature annually (amounts in thousands, except number of investments maturing).

Year of Maturity	Number of Investments Maturing	Carrying Value	% of Total
2019	49	$ 18,609	1.9 %
2020	9	21,263	2.1 %
2021	5	10,774	1.1 %

2022	4	6,101	0.6	%
2023	25	115,360	11.5	%
2024	27	115,508	11.6	%
2025	52	106,488	10.7	%
2026	61	188,393	18.9	%
2027	44	105,033	10.5	%
2028 and thereafter	83	311,291	31.1	%
Total	359	$ 998,820	100.0	%

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Our REIS Equity Portfolio, as defined in Note 3 to the Consolidated Financial Statements, had the following characteristics based on carrying values of $284.7 million and $292.8 million as of December 31, 2018 and 2017, respectively:

Property Type	As of December 31, 2018		2017	
Office	56.5	%	38.5	%
Retail	24.1	%	37.5	%
Multifamily	7.8	%	12.5	%
Mixed Use	5.1	%	7.0	%
Self-storage	4.5	%	4.5	%
Hotel	2.0	%	—	%
	100.0	%	100.0	%

Geographic Location	As of December 31, 2018		2017	
South East	37.9	%	46.3	%
North East	22.4	%	14.0	%
South West	18.0	%	12.5	%
West	9.8	%	10.8	%
Midwest	6.8	%	7.5	%
Mid Atlantic	5.1	%	8.9	%
	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

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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 13 cities across five 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, 2018, the Company had 290 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.”

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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.

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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 Fund 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 Fund, 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

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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.

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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.

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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, misappropriation or access of 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 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.

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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.

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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 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.

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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, 2018, our total consolidated indebtedness was approximately $10.8 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 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 will vary 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 75% 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.

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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.

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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 a minimum tangible net worth and cash liquidity, and specified financial ratios, such as total debt to total assets and EBITDA to fixed charges. 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, 2018, we had $328.0 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.

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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 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 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.

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, 2018, our loan portfolio consisted of $1.1 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.

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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;

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•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

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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 potential 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 will 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.

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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.

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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 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

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•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 defaults, 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

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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

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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 may require us to recognize an “other than temporary” impairment against such assets under GAAP if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other than temporarily impaired. Such impairment charges reflect non cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale.

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.

In addition, following a national referendum in June 2016, the United Kingdom formally notified the European Council in March 2017 of its intention to withdraw from the European Union (commonly referred to as “Brexit”). The timing of the proposed exit is currently scheduled for March 29, 2019, with a transition period running through December 2020. A withdrawal plan was presented to the UK parliament in January 2019 and rejected, creating further uncertainty in negotiations and the process of withdrawal. A delay in the timing of the exit is also possible.

The terms governing the future relationship between the United Kingdom and the European Union, as well as the legal and economic consequences of those terms, remain unclear. This continues to create significant volatility in the global financial markets and has adversely affected markets in the United Kingdom in particular. Brexit is likely to continue to adversely affect the United Kingdom, European and worldwide economic and market conditions and could contribute to greater instability in global financial and foreign exchange markets before and after the terms of the United Kingdom’s future relationships with the European Union are settled. Further, financial and other markets may suffer losses as a result of other countries determining to withdraw from the European Union or from any future significant changes to the European Union's structure and/or regulations or the break-up of the European Union entirely. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate.

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Any further deterioration in the global or Eurozone economy, or the effects of Brexit or of the exit of any other member state or the break-up of the European Union entirely, 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;

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- 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.

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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.

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;

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- 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 recent acquisition of the Infrastructure Lending Segment or such benefits may take longer to realize than expected.

The success of our recent 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;

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· 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.

The credit agreement entered into in connection with our recent acquisition of the Infrastructure Lending Segment contains various covenants that impose restrictions on certain of our subsidiaries that may affect our ability to operate our businesses.

The credit agreement entered into by certain of our subsidiaries in connection with our recent acquisition of the Infrastructure Lending Segment, which we refer to as the Infrastructure Lending Credit Agreement, imposes various affirmative and negative covenants that, subject to certain exceptions, restrict the ability of such subsidiaries to, among other things, incur debt, have liens on their property, merge or consolidate with any other person or sell or convey certain of their assets to any one person, engage in certain transactions with affiliates and change the nature of their business. In addition, the Infrastructure Lending Credit Agreement also requires such subsidiaries to maintain a certain loan-to-value ratio. The ability of such impacted subsidiaries to comply with these provisions may be affected by events beyond our control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could accelerate such subsidiaries' repayment obligations and could result in a default and acceleration under other agreements of ours and our other subsidiaries containing cross-default provisions. Under these circumstances, we and our subsidiaries might not have sufficient funds or other resources to satisfy all of our and our subsidiaries' obligations.

For our recent 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 recent acquisition of the Infrastructure Lending Segment depends, in part, on our ability to leverage the capabilities of Starwood Energy Group.

The success of our recent 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 recent 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.

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Tax considerations relating to our recent 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 Our 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.

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

With the completion of our acquisition of the Infrastructure Lending Segment, 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;

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- 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 portfolio of our recently acquired 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 recently acquired 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, or in the thermal power, renewable power or other applicable power subsector specifically, 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/downstream oil and gas industry and, to a lesser extent, the upstream oil and gas industry, which also subjects us to certain risks inherent in the oil and gas industry.

Loans to power projects or 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, 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

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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 to the power industry as a result of a downturn within the power industry generally, or within the thermal, renewable or other subsectors within the power industry specifically, or of one of the loans to the oil and gas industry as a result of a downturn in that industry, 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.

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.

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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.

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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

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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.

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 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 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. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of 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.

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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 Our 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.

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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 recently enacted 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 Tax Cuts and Jobs Act, we generally will be 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.

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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, as in the case of our spin-off of our former SFR segment on January 31, 2014. 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

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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.

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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 may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Securitizations could result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses and certain tax exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax exempt "disqualified organizations," such as certain government related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we would be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

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.

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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 a hypothetical increase in 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 proposed 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 recently enacted Tax Cuts and Jobs Act makes 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. 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;

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•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.

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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 Norwalk, 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, 2018.

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.

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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 21, 2019, the closing price of our common stock, as reported by the NYSE, was $22.06 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 of our Consolidated Financial Statements for the Company’s dividend history for the three years ended December 31, 2018.

On February 28, 2019, our board of directors declared a dividend of $0.48 per share for the first quarter of 2019, which is payable on April 15, 2019 to common stockholders of record as of March 29, 2019.

Holders

As of February 21, 2019, there were 329 holders of record of the Company’s 279,277,283 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.

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Stock Performance Graph

CUMULATIVE TOTAL RETURN

Based upon initial investment of $100 on December 31, 2013(1)

	Starwood Property Trust	S&P © 500	Bloomberg REIT Mortgage Index
12/31/2013	$ 100.00	$ 100.00	$ 100.00
12/31/2014	$ 112.93	$ 113.69	$ 119.43
12/31/2015	$ 109.08	$ 115.26	$ 107.61
12/31/2016	$ 127.53	$ 129.05	$ 131.58
12/31/2017	$ 135.25	$ 157.22	$ 158.25
12/31/2018	$ 136.74	$ 150.33	$ 153.65

(1) Dividend reinvestment is assumed.

Sales of Unregistered Equity Securities

During the year ended December 31, 2018, certain third parties (the “Contributors”) contributed properties to SPT Dolphin Intermediate LLC (“SPT Dolphin”), a subsidiary of the Company, as the second phase of its acquisition of the Woodstar II Portfolio, as described further in Note 3 to the Consolidated Financial Statements. Among other consideration, the Contributors (the “Class A Unitholders”) received 7,403,731 Class A units of SPT Dolphin (the “Class A Units”) and rights to receive an additional 1,411,642 Class A Units if certain contingent events occur. In November 2018, we issued 1,727,314 of a total 1,910,563 contingent Class A Units, inclusive of 498,921 contingent Class A Units applicable to the first phase of the Woodstar II Portfolio acquisition, to the Contributors.

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.

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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, 2018.

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,					
	2018	2017	2016	2015	2014	
Operating Data:						
Revenues (1)	$ 1,109,280	$ 879,888	$ 784,667	$ 735,877	$ 702,875	
Costs and expenses	977,632	735,249	651,127	536,279	484,009	
Other income (2)	294,879	299,650	242,455	269,791	307,319	
Income tax provision	(15,330)	(31,522)	(8,344)	(17,206)	(24,096)	
Income from continuing operations	411,197	412,767	367,651	452,183	502,089	
Loss from discontinued operations, net of tax	—	—	—	—	(1,551)	
Net income	411,197	412,767	367,651	452,183	500,538	
Net income attributable to Starwood Property Trust, Inc.	385,830	400,770	365,186	450,697	495,021	
Basic earnings per share:						
Continuing operations	$ 1.44	$ 1.53	$ 1.52	$ 1.92	$ 2.29	
Net income	$ 1.44	$ 1.53	$ 1.52	$ 1.92	$ 2.28	
Diluted earnings per share:						
Continuing operations	$ 1.42	$ 1.52	$ 1.50	$ 1.91	$ 2.25	
Net income	$ 1.42	$ 1.52	$ 1.50	$ 1.91	$ 2.24	
Dividends declared per share of common stock	$ 1.92	$ 1.92	$ 1.92	$ 1.92	$ 1.92	(3)
Weighted-average basic shares of common stock outstanding	265,279	259,620	238,529	233,419	214,945	
Balance Sheet Data:						
Investments in loans	$ 9,794,254	$ 7,382,641	$ 5,946,274	$ 6,263,517	$ 6,300,285	
Investments in securities (4)	906,468	718,203	807,618	724,947	998,248	
Investments in properties	2,784,890	2,647,481	1,944,720	919,225	39,854	
Total assets (5)	68,262,453	62,941,289	77,256,266	85,698,354	116,070,557	
Total financing arrangements	10,756,635	7,972,476	6,200,670	5,392,494	4,656,512	
Total liabilities (5)	63,362,264	58,362,088	72,696,193	81,527,411	112,187,645	
	4,603,432	4,478,414	4,522,274	4,140,316	3,860,856	

Total Starwood Property Trust, Inc. Stockholders' Equity					
Total Equity	$ 4,900,189	$ 4,579,201	$ 4,560,073	$ 4,170,943	$ 3,882,912

(1) During the years ended December 31, 2018, 2017, 2016, 2015 and 2014, servicing fees and interest income of $147.1 million, $179.4 million, $180.5 million, $230.8 million and $159.3 million, respectively, are eliminated in consolidation pursuant to ASC 810.

(2) During the years ended December 31, 2018, 2017, 2016, 2015 and 2014, other income includes $148.0 million, $186.1 million, $181.2 million, $232.0 million and $162.0 million, respectively, of additive net eliminations in consolidation pursuant to ASC 810.

(3) On January 31, 2014, we completed the spin off of our SFR segment and our stockholders received one common share of Starwood Waypoint Residential Trust (“SWAY”) for every five shares of our common stock held at the close of business on January 24, 2014, effectively a non cash dividend of $5.77 per share. On the date of the spin off, the book value of SWAY’s assets was estimated to be $1.1 billion.

(4) December 31, 2018, 2017, 2016, 2015 and 2014 balances exclude $1.2 billion, $1.0 billion, $959.0 million, $825.2 million and $519.8 million, respectively, of CMBS and RMBS that are eliminated in consolidation pursuant to ASC 810.

(5) 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. December 31, 2014 balances include $107.8 billion of VIE assets and $107.2 billion of VIE liabilities consolidated pursuant to ASC 810.

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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; and

(5)

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

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Recent Developments

Developments During the Fourth Quarter of 2018

- The Commercial and Residential Lending Segment originated or acquired $1.6 billion of commercial loans, CMBS, and preferred equity during the period, including the following:

  - $263.3 million first mortgage and mezzanine loan for the refinancing of a 44-property national hotel portfolio, of which we funded $230.8 million.

  - $213.0 million first mortgage and mezzanine loan for the development of a 555-unit, multifamily community in Boston, Massachusetts, of which we funded $11.3 million.

  - $210.4 million first mortgage and mezzanine loan for the development of a corporate headquarters which is fully pre-leased to an investment grade tenant located in a suburb of Philadelphia, Pennsylvania, of which we funded $22.4 million.

  - $170.0 million first mortgage and mezzanine loan for the refinancing of a 21-story multifamily conversion, located in Philadelphia, Pennsylvania, of which we funded $107.6 million.

  - $149.4 million first mortgage and mezzanine loan on a 22-property national hotel portfolio, of which we funded $103.7 million.

- Funded $145.2 million of previously originated loan commitments.

- Received gross proceeds of $805.9 million (net proceeds of $474.4 million) from maturities, sales and principal repayments on loans held-for-investment, single-borrower CMBS and preferred equity interests.

- Received proceeds of $286.8 million, including retained RMBS of $45.2 million, from the securitization of $279.9 million of residential mortgage loans.

- Sold commercial real estate within the Property Segment for total gross proceeds of $179.8 million and recognized net gains of $21.6 million. Additionally, sold commercial real estate within the Investing and Servicing Segment for total gross proceeds of $29.2 million and recognized net gains of $7.0 million.

- Originated commercial conduit loans of $450.2 million. Separately, received proceeds of $709.4 million from sales of previously originated commercial conduit loans.

- Obtained eight new special servicing assignments for CMBS trusts with a total unpaid principal balance of $5.0 billion.

- Sold CMBS held by our Investing and Servicing Segment for total gross proceeds of $75.6 million and acquired CMBS for a purchase price of $65.2 million, net of non-controlling interests.

- Settled $27.9 million of redemption notices received on our 4.00% Convertible Senior Notes due 2019 (the "2019 Notes") through the issuance of 1.2 million shares and cash payments of $4.7 million, recognizing a loss on extinguishment of debt of $0.3 million.

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Developments During 2018

Infrastructure Lending Segment Acquisition

On September 19, 2018 and October 15, 2018, we acquired the project finance origination, underwriting and capital markets business of GE Capital for approximately $2.2 billion (the "Infrastructure Lending Segment"). The business includes $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. The Infrastructure Lending Portfolio is 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 are predominantly denominated in USD and backed by long term power purchase agreements primarily with investment grade counterparties. The Company hired a team of professionals from GE Capital's project finance division in connection with the acquisition to manage and expand the Infrastructure Lending Portfolio. We utilized $1.7 billion in new financing in order to fund the acquisition.

Woodstar II Portfolio Acquisition

During the year ended December 31, 2018, we acquired the final 19 properties of the 27 affordable housing communities comprising our "Woodstar II Portfolio". These properties consist of 4,369 units and were acquired for $438.1 million, including contingent consideration of $29.2 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 these acquisitions utilizing new 10-year mortgage debt totaling $300.9 million with weighted average fixed annual interest rates of 3.82%. The Woodstar II Portfolio is comprised of 6,109 units concentrated primarily in Central and South Florida and is 100% occupied.

Other Developments

· The Commercial and Residential Lending Segment originated or acquired $6.0 billion of commercial loans, CMBS, and preferred equity during the year, including the following:

o $385.0 million mezzanine loan on a 2,900-room resort in Nassau, Bahamas, which we fully funded at acquisition and subsequently sold a $142.5 million subordinate interest through a single-asset securitization.

o $375.0 million first mortgage and mezzanine loan on a 10-property hotel portfolio located in California, Colorado, and Florida, of which we funded $375.0 million, sold the most subordinated $50.0 million position in the mezzanine loan and securitized the $225.0 million first mortgage, of which we retained $46.2 million.

o $277.0 million first mortgage and mezzanine loan for the development of a 66-story condominium tower located in Long Island City, New York of which we funded $55.0 million.

o $263.3 million first mortgage and mezzanine loan for the refinancing of a 44-property national hotel portfolio, of which we funded $230.8 million.

o $239.3 million first mortgage and mezzanine loan for the acquisition of a nine-property office portfolio located in Manhattan's Upper West Side, which we fully funded.

o $214.0 million first mortgage and mezzanine loan for the acquisition of a 1.2 million square foot Class A office tower located in Houston, Texas, of which we funded $118.0 million.

· Funded $539.0 million of previously originated loan commitments.

- Received gross proceeds of $3.6 billion (net proceeds of $2.1 billion) from maturities, sales and principal repayments on loans held-for-investment, single-borrower CMBS and preferred equity interests.

- Received proceeds of $516.1 million from single-asset securitizations of commercial loans, net of retained interests.

- Received proceeds of $15.1 million from a profit participation associated with a previously repaid loan, which was recognized as interest income.

- Received proceeds of $676.5 million, including retained RMBS of $91.0 million, from the securitization of $654.0 million residential mortgage loans.

- Sold commercial real estate within the Property Segment for total gross proceeds of $235.4 million and recognized net gains of $28.5 million. Additionally, sold commercial real estate within the Investing and Servicing Segment for total gross proceeds of $77.9 million and recognized net gains of $21.5 million.

- Originated or acquired commercial conduit loans of $1.4 billion. Separately, received proceeds of $1.6 billion from sales of previously originated commercial conduit loans.

- Obtained 35 new special servicing assignments for CMBS trusts with a total unpaid principal balance of $21.2 billion, one of which is in the process of being transitioned to us.

- Sold CMBS held by our Investing and Servicing Segment for total gross proceeds of $105.6 million and acquired CMBS for a purchase price of $155.7 million, net of non-controlling interests.

- Acquired commercial real estate from CMBS trusts for a gross purchase price of $53.1 million.

- Issued $500.0 million of 3.625% Senior Notes due 2021 (the “2021 February Notes”).

- Repurchased 573,255 shares of common stock for a total cost of $12.1 million.

- Settled $263.4 million of redemption notices received on our 2019 Notes through the issuance of 12.4 million shares and cash payments of $25.5 million, recognizing a loss on extinguishment of debt of $2.1 million.

Subsequent Events

Refer to Note 25 to the Consolidated Financial Statements for disclosure regarding significant transactions that occurred subsequent to December 31, 2018.

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, 2018, 2017 and 2016 by business segment (amounts in thousands):

	For the Year Ended December 31, 2018	2017	2016	$ Change 2018 vs. 2017	$ Change 2017 vs. 2016
Revenues:					
Commercial and Residential Lending Segment	$ 627,950	$ 547,913	$ 497,735	$ 80,037	$ 50,178
Infrastructure Lending Segment	30,709	—	—	30,709	—
Property Segment	292,897	199,111	114,599	93,786	84,512
Investing and Servicing Segment	304,480	312,237	352,836	(7,757)	(40,599)
Corporate	360	—	—	360	—
Securitization VIE eliminations	(147,116)	(179,373)	(180,503)	32,257	1,130
	1,109,280	879,888	784,667	229,392	95,221
Costs and expenses:					
Commercial and Residential Lending Segment	226,625	127,078	113,770	99,547	13,308
Infrastructure Lending Segment	33,386	—	—	33,386	—
Property Segment	292,548	197,517	131,878	95,031	65,639
Investing and Servicing Segment	161,623	157,606	173,791	4,017	(16,185)
Corporate	263,685	253,499	231,249	10,186	22,250
Securitization VIE eliminations	(235)	(451)	439	216	(890)
	977,632	735,249	651,127	242,383	84,122
Other income (loss):					
Commercial and Residential Lending Segment	8,617	4,085	9,164	4,532	(5,079)
Infrastructure Lending Segment	396	—	—	396	—
Property Segment	52,727	(59,920)	52,276	112,647	(112,196)
Investing and Servicing Segment	94,614	175,968	4,364	(81,354)	171,604
Corporate	(9,429)	(6,610)	(4,505)	(2,819)	(2,105)
Securitization VIE eliminations	147,954	186,127	181,156	(38,173)	4,971
	294,879	299,650	242,455	(4,771)	57,195
Income (loss) before income taxes:					
Commercial and Residential Lending Segment	409,942	424,920	393,129	(14,978)	31,791
Infrastructure Lending Segment	(2,281)	—	—	(2,281)	—
Property Segment	53,076	(58,326)	34,997	111,402	(93,323)
Investing and Servicing Segment	237,471	330,599	183,409	(93,128)	147,190
Corporate	(272,754)	(260,109)	(235,754)	(12,645)	(24,355)
Securitization VIE eliminations	1,073	7,205	214	(6,132)	6,991
	426,527	444,289	375,995	(17,762)	68,294
Income tax provision	(15,330)	(31,522)	(8,344)	16,192	(23,178)
Net income attributable to non-controlling interests	(25,367)	(11,997)	(2,465)	(13,370)	(9,532)
Net income attributable to Starwood Property Trust, Inc.	$ 385,830	$ 400,770	$ 365,186	$ (14,940)	$ 35,584

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

Commercial and Residential Lending Segment

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 received in 2018 from a profit participation in a mortgage loan that was repaid in 2016 (see Note 4 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 net 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 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 year 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, and 4.3% and 3.7%, respectively, excluding the impact of bridge

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financing. The increases 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.

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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

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, 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 four regional shopping malls (the “Retail Fund”), which is an investment company that measures its assets at fair value.

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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 (see Note 3 to the Consolidated Financial Statements).

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.

Corporate and Other Items

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

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

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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 beginning in 2018, some CMBS and RMBS trusts for which the Commercial and Residential Lending Segment is deemed the primary beneficiary.

Income Tax Provision

Historically, our consolidated income tax provision principally relates to the taxable nature of the Investing and Servicing Segment's loan servicing and loan conduit businesses 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.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Commercial and Residential Lending Segment

Revenues

For the year ended December 31, 2017, revenues of our Commercial and Residential Lending Segment increased $50.2 million to $547.9 million, compared to $497.7 million for the year ended December 31, 2016. This increase was primarily due to an increase in interest income from loans principally due to higher average loan balances and LIBOR rates, partially offset by lower levels of prepayment related income.

Costs and Expenses

For the year ended December 31, 2017, costs and expenses of our Commercial and Residential Lending Segment increased $13.3 million to $127.1 million, compared to $113.8 million for the year ended December 31, 2016. This increase was primarily due to (i) a $19.2 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio and (ii) a $3.3 million increase in general, administrative and other expenses, partially offset by a $9.2 million decrease in our loan loss allowance.

Net Interest Income (amounts in thousands)

	For the Year Ended December 31,		
	2017	2016	Change
Interest income from loans	$ 499,806	$ 449,470	$ 50,336
Interest income from investment securities	46,710	47,241	(531)
Interest expense	(107,167)	(88,000)	(19,167)
Net interest income	$ 439,349	$ 408,711	$ 30,638

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For the year ended December 31, 2017, net interest income of our Commercial and Residential Lending Segment increased $30.6 million to $439.3 million, compared to $408.7 million for the year ended December 31, 2016. 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 each of the years ended December 31, 2017 and 2016, the overall weighted average unlevered yield on the Commercial and Residential Lending Segment's loans and investment securities was 7.5%. The weighted average unlevered yield remained unchanged primarily due to the benefits of increases in LIBOR, which offset lower levels of prepayment related income and the compression of interest rate spreads in credit markets for the year ended December 31, 2017.

During the year ended December 31, 2017 and 2016, 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 3.8% and 3.4%, respectively, and 3.7% and 3.3%, respectively, excluding the impact of bridge financing. The increases in borrowing rates primarily reflect increases in LIBOR.

Other Income

For the year ended December 31, 2017, other income of our Commercial and Residential Lending Segment decreased $5.1 million to $4.1 million, compared to $9.2 million for the year ended December 31, 2016. The decrease was primarily due to a $76.8 million unfavorable change in gain (loss) on derivatives, partially offset by a $71.2 million favorable change in foreign currency gain (loss). The unfavorable change from derivatives reflects a $77.6 million unfavorable change on foreign currency hedges, partially offset by a $0.8 million decreased loss 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 unfavorable change on the foreign currency hedges and the favorable change in foreign currency gain (loss) reflect the overall weakening of the U.S. dollar against the GBP in the year ended December 31, 2017 versus a strengthening of the U.S. dollar in the year ended December 31, 2016. The interest rate swaps are used primarily to fix our interest rate payments on certain variable rate borrowings, which fund fixed rate investments.

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	$ 13,260	$ 9,370	$ (2,354)	$ —	$ 1,536
Medical Office Portfolio	65,570	66,652	(25,443)	—	(26,525)
Ireland Portfolio	550	52	(38,012)	130	(37,384)
Woodstar I Portfolio	4,998	(11,288)	—	(9,102)	7,184
Woodstar II Portfolio	134	229	—	7	(88)
Investment in unconsolidated entities	—	4	—	(37,422)	(37,426)
Other/Corporate	—	620	—	—	(620)
Total	$ 84,512	$ 65,639	$ (65,809)	$ (46,387)	$ (93,323)

Revenues

For the year ended December 31, 2017, revenues of our Property Segment increased $84.5 million to $199.1 million, compared to $114.6 million for the year ended December 31, 2016. The increase in revenues in the year ended December 31, 2017 was primarily due to the full year inclusion of rental income for the Medical Office Portfolio, which was acquired in December 2016, and the Woodstar I Portfolio, which was acquired over a period from October 2015 through April 2016. Also contributing to the increase was rental income from the Master Lease Portfolio which was acquired on September 25, 2017. The first phase of our Woodstar II Portfolio was acquired on December 28, 2017, so such acquisition had little impact on revenues.

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Costs and Expenses

For the year ended December 31, 2017, costs and expenses of our Property Segment increased $65.6 million to $197.5 million, compared to $131.9 million for the year ended December 31, 2016. The increase in costs and expenses reflects increases of $22.9 million in depreciation and amortization, $24.7 million in other rental related costs and $24.5 million in interest expense, all primarily due to the full year inclusion of the Medical Office Portfolio and Woodstar I Portfolio and acquisition of the Master Lease Portfolio, partially offset by lower amortization related to the Woodstar I Portfolio's in-place lease intangible asset, which is fully amortized, and a $7.5 million decrease in acquisition costs not capitalized.

Other Income (Loss)

For the year ended December 31, 2017, other income (loss) of our Property Segment decreased $112.2 million to a loss of $59.9 million, compared to income of $52.3 million for the year ended December 31, 2016. The decrease in other income (loss) was primarily due to (i) a $65.8 million unfavorable change in gain (loss) on derivatives of which $38.7 million related to foreign exchange contracts which economically hedge our Euro currency exposure with respect to the Ireland Portfolio and $27.1 million related to interest rate swaps which primarily hedge the variable interest rate risk on borrowings secured by our Medical Office Portfolio, (ii) a $37.4 million unfavorable change in earnings (loss) from unconsolidated entities due to decreases in fair value of the properties in the Retail Fund (see Notes 8 and 16 to the Consolidated Financial Statements) and (iii) the non-recurrence of an $8.4 million bargain purchase gain recognized on the Woodstar I Portfolio in the second quarter of 2016.

Investing and Servicing Segment

Revenues

For the year ended December 31, 2017, revenues of our Investing and Servicing Segment decreased $40.6 million to $312.2 million, compared to $352.8 million for the year ended December 31, 2016. The decrease in revenues in the year ended December 31, 2017 was primarily due to decreases of $33.8 million in servicing fees and $11.9 million in interest income from CMBS investments, partially offset by a $12.3 million increase in rental income on our expanded REIS Equity Portfolio. The $33.8 million decrease in servicing fees is primarily due to the divestiture of our European servicing and advisory business in October 2016 and lower domestic servicing fees. The $11.9 million decrease in CMBS interest income reflects a lower level of CMBS interest recoveries from asset liquidations by CMBS trusts.

Costs and Expenses

For the year ended December 31, 2017, costs and expenses of our Investing and Servicing Segment decreased $16.2 million to $157.6 million, compared to $173.8 million for the year ended December 31, 2016. The decrease in costs and expenses was primarily due to a $26.5 million decrease in general and administrative expenses principally reflecting the divestiture of our European servicing and advisory business and lower compensation costs, partially offset by increases of $4.4 million in costs of rental operations, $3.9 million in depreciation and amortization and $3.9 million in interest expense, all primarily related to our expanded REIS Equity Portfolio.

Other Income

For the year ended December 31, 2017, other income of our Investing and Servicing Segment increased $171.6 million to $176.0 million, compared to $4.4 million for the year ended December 31, 2016. The increase in other income was primarily due to (i) a $98.4 million favorable change in fair value of CMBS investments to an increase of $54.3 million compared to a decrease of $44.1 million in the years ended December 31, 2017 and 2016, respectively, (ii) a $53.9 million increase in earnings from an unconsolidated investor entity which owns equity in an online real estate company (see Note 8 to the Consolidated Financial Statements), (iii) a $19.8 million gain on sale of five operating properties, (iv) a $12.9 million lesser decrease in fair value of servicing rights 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 $9.6 million lesser increase

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in the fair value of our conduit loans held-for-sale.

Corporate and Other Items

Corporate Costs and Expenses

For the year ended December 31, 2017, corporate expenses increased $22.3 million to $253.5 million, compared to $231.2 million for the year ended December 31, 2016. The increase was primarily due to (i) a $17.9 million increase in interest expense principally on our 2021 Senior Notes issued in December 2016 and our 2025 Senior Notes issued in December 2017, partially offset by a decrease in interest expense on our reduced term loan borrowings and our 2017 Convertible Notes which matured in October 2017, and (ii) a $5.0 million increase in management fees.

Corporate Other Loss

For the year ended December 31, 2017, corporate other loss increased $2.1 million to $6.6 million, compared to $4.5 million for the year ended December 31, 2016. The increase in corporate other loss was primarily due to (i) a $2.5 million decrease in other income, which included a reimbursement received related to a partnership guarantee arrangement in 2016, and (ii) a $2.4 million loss on an interest rate swap used to hedge the portion of our 2025 Senior Notes used to repay variable-rate secured financing, partially offset by (iii) a $2.8 million decreased loss on extinguishment of debt.

Securitization VIE Eliminations

Refer to the preceding comparison of the year ended December 31, 2018 to the year ended December 31, 2017 for a discussion of the nature of securitization VIE eliminations.

Income Tax Provision

Historically, our consolidated income tax provision principally relates to the taxable nature of the Investing and Servicing Segment's loan servicing and loan conduit businesses which are housed in TRSs. For the year ended December 31, 2017, our income tax provision increased $23.2 million to $31.5 million, compared to $8.3 million for the year ended December 31, 2016. The change primarily reflects (i) an increase in the taxable income of our TRSs associated with earnings from our interest in an investor entity, which owns equity in an online real estate company and sold nearly all of its interest during the year ended December 31, 2017, and (ii) an income tax provision of $10.4 million resulting from the remeasurement of our net deferred tax assets upon enactment of the Tax Cuts and Jobs Act in December 2017 (see Note 21 to the Consolidated Financial Statements).

Net Income Attributable to Non-controlling Interests

For the year ended December 31, 2017, net income attributable to non-controlling interests increased $9.5 million to $12.0 million, compared to $2.5 million for the year ended December 31, 2017. The increase was primarily due to non-controlling interests in a non-recurring gain of a consolidated VIE.

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;

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(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 the 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.

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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,		
	2018	2017	2016
Diluted weighted average shares - GAAP	288,484	262,079	241,794
Add: Unvested stock awards	2,285	1,659	1,469
Add: Woodstar II Class A Units	8,971	—	—
Less: Convertible Notes dilution	(22,659)	(1,899)	(2,697)
Diluted weighted average shares - Core	277,081	261,839	240,566

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, 2018.

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. During the year ended December 31, 2018, we extinguished a portion of our 2019 Notes, consisting of an unpaid principal balance of $263.4 million. The notes were extinguished with 12.4 million common shares and $25.5 million of cash, reflecting a premium to par of $33.4 million. The proportionate share of the premium which was settled in cash was first used to fully amortize the remaining equity portion of the notes, with the remaining amount recognized as a loss on extinguishment of debt for Core Earnings purposes. For the year ended December 31, 2018, the loss totaled $2.9 million. The corresponding GAAP loss was $2.1 million (refer to Note 11 to the Consolidated Financial Statements for further discussion).

In March 2018, our 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, 2018, 2017 and 2016:

Core Earnings For the Three-Month Periods Ended

	March 31	June 30	September 30	December 31
2018	$ 0.58	$ 0.54	$ 0.53	$ 0.54
2017	0.51	0.52	0.65	0.55
2016	0.50	0.50	0.59	0.50

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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 allowance, 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

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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 allowance, 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

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The following table presents our summarized results of operations and reconciliation to Core Earnings for the year ended December 31, 2016, by business segment (amounts in thousands):

	Commercial and Residential Lending Segment	Property Segment	Investing and Servicing Segment	Corporate	Total
Revenues	$ 497,735	$ 114,599	$ 352,836	$ —	$ 965,170
Costs and expenses	(113,770)	(131,878)	(173,791)	(231,249)	(650,688)
Other income (loss)	9,164	52,276	4,364	(4,505)	61,299
Income (loss) before income taxes	393,129	34,997	183,409	(235,754)	375,781
Income tax benefit (provision)	1,610	—	(9,954)	—	(8,344)
Income attributable to non-controlling interests	(1,398)	—	(853)	—	(2,251)
Net income (loss) attributable to Starwood Property Trust, Inc.	393,341	34,997	172,602	(235,754)	365,186
Add / (Deduct):					
Non-cash equity compensation expense	2,829	111	7,370	22,705	33,015
Management incentive fee	—	—	—	32,842	32,842
Acquisition and investment pursuit costs	—	7,755	1,421	356	9,532
Depreciation and amortization	—	50,862	12,768	—	63,630
Loan loss allowance, net	3,759	—	—	—	3,759
Interest income adjustment for securities	(1,016)	—	19,376	—	18,360
Bargain purchase gains	—	(8,406)	(8,822)	—	(17,228)
Other non-cash items	—	(3,109)	45	—	(3,064)
Reversal of GAAP unrealized (gains) / losses on:					
Loans held-for-sale	—	—	(74,251)	—	(74,251)
Securities	(20)	—	44,094	—	44,074
Derivatives	(44,151)	(33,497)	2,526	—	(75,122)
Foreign currency	37,595	38	(3,661)	(5)	33,967
Earnings from unconsolidated entities	(3,447)	(9,736)	(8,937)	—	(22,120)
Recognition of Core realized gains / (losses) on:					
Loans held-for-sale	—	—	74,192	—	74,192
Securities	—	—	(2,288)	—	(2,288)
Derivatives	33,384	186	(2,013)	—	31,557
Foreign currency	(32,803)	(38)	3,352	5	(29,484)
Earnings from unconsolidated entities	4,051	7,245	4,673	—	15,969
Core Earnings (Loss)	$ 393,522	$ 46,408	$ 242,447	$ (179,851)	$ 502,526
	$ 1.64	$ 0.19	$ 1.01	$ (0.75)	$ 2.09

Core Earnings (Loss) per
Weighted Average Diluted
Share

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 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	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.

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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. 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 $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 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 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 operating results of our servicing and conduit businesses which are held 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.

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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.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Commercial and Residential Lending Segment

The Commercial and Residential Lending Segment's Core Earnings increased by $26.5 million, from $393.5 million during the year ended December 31, 2016 to $420.0 million during the year ended December 31, 2017. After making adjustments for the calculation of Core Earnings, revenues were $547.0 million, costs and expenses were $128.3 million and other income was $2.9 million.

Core revenues, consisting principally of interest income on loans, increased by $50.3 million during the year ended December 31, 2017, primarily due to higher average loan balances and LIBOR rates, partially offset by lower levels of prepayment related income.

Core costs and expenses increased by $21.1 million during the year ended December 31, 2017, primarily due to (i) a $19.2 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio and (ii) a $1.3 million increase in general and administrative expenses.

Core other income decreased by $0.9 million.

Property Segment

Core Earnings by Portfolio (amounts in thousands)

	For the Year Ended December 31,		
	2017	2016	Change
Master Lease Portfolio	$ 7,111	$ —	$ 7,111
Medical Office Portfolio	26,340	(20)	26,360
Ireland Portfolio	18,932	20,196	(1,264)
Woodstar I Portfolio	22,538	21,051	1,487
Woodstar II Portfolio	53	—	53
Investment in unconsolidated entities	3,559	7,245	(3,686)
Other/Corporate	(2,686)	(2,064)	(622)
Core Earnings	$ 75,847	$ 46,408	$ 29,439

The Property Segment's Core Earnings increased by $29.4 million, from $46.4 million during the year ended December 31, 2016 to $75.8 million during the year ended December 31, 2017. After making adjustments for the calculation of Core Earnings, revenues were $197.6 million, costs and expenses were $124.3 million and other income was $2.8 million.

Core revenues increased by $86.4 million during the year ended December 31, 2017, primarily due to the inclusion of a full year of rental income for the Medical Office Portfolio and the Woodstar I Portfolio and the acquisition of the Master Lease Portfolio.

Core costs and expenses increased by $51.5 million during the year ended December 31, 2017, primarily due to increases in interest expense of $25.1 million, primarily on the secured financing for the Medical Office and Master Lease Portfolios, and rental related costs of $24.5 million.

Core other income decreased by $5.3 million during the year ended December 31, 2017, primarily due to a 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 increased by $29.2 million, from $242.4 million during the year ended December 31, 2016 to $271.6 million during the year ended December 31, 2017. After making adjustments for the calculation of Core Earnings, revenues were $326.1 million, costs and expenses were $134.9 million, other income was $114.4 million, income tax provision was $30.6 million and the deduction of income attributable to non-controlling interests was $3.4 million.

Core revenues decreased by $46.1 million during the year ended December 31, 2017, primarily due to decreases of $33.8 million in servicing fees reflecting the divestiture of our European servicing and advisory business and lower domestic servicing fees, $17.6 million in interest income from our CMBS portfolio and $3.7 million in interest income from conduit loans, partially offset by a $12.5 million increase in rental income on our expanded REIS Equity Portfolio.

Core costs and expenses decreased by $17.0 million during the year ended December 31, 2017, primarily due to a decrease in general and administrative expenses reflecting the divestiture of our European servicing and advisory business and lower incentive compensation, partially offset by increases in costs of rental operations and interest expense on secured financings for CMBS and the REIS Equity Portfolio.

Core other income increased by $81.4 million principally due to (i) a $52.4 million realized gain from an unconsolidated investor entity which owns equity in an online real estate company and sold nearly all of its interest during the third quarter of 2017, (ii) a $23.2 million increase in realized gains on sales of operating properties and CMBS and (iii) a $21.4 million decrease in amortization of servicing rights, all partially offset by (iv) a $9.4 million decrease in realized gains on conduit loans and (v) core write-downs of $5.5 million on CMBS.

Income taxes, which principally relate to the operating results of our servicing and conduit businesses which are held in TRSs, increased $20.6 million due to (i) an increase in the taxable income of our TRSs primarily associated with realized gains from our interest in an investor entity, which owns equity in an online real estate company and sold nearly all of its interest during the third quarter of 2017 and (ii) the impact of remeasuring our net deferred tax assets upon enactment of the Tax Cuts and Jobs Act in December 2017.

Income attributable to non-controlling interests increased $2.5 million primarily due to minority investors' share of gains from two operating properties sold during the third quarter of 2017.

Corporate

Core corporate costs and expenses increased by $3.4 million, from $179.9 million during the year ended December 31, 2016 to $183.3 million during the year ended December 31, 2017, primarily due to increases in interest expense of $18.7 million and base management fees of $6.8 million, partially offset by a favorable change in core gains (losses) on extinguishment of debt of $24.0 million.

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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, 2018 (amounts in thousands)

	GAAP	VIE Adjustments	Excluding Investing and Servicing VIEs
Net cash provided by operating activities	$ 585,470	$ 2,645	$ 588,115
Cash Flows from Investing Activities:			
Origination and purchase of loans held-for-investment	(4,428,891)	—	(4,428,891)
Proceeds from principal collections and sale of loans	3,893,279	—	3,893,279
Purchase of investment securities	(492,400)	(385,463)	(877,863)
Proceeds from sales and collections of investment securities	399,351	197,504	596,855
Infrastructure lending business combination	(2,158,553)	—	(2,158,553)
Proceeds from sales and insurance recoveries on properties	311,874	—	311,874
Purchases and additions to properties and other assets	(54,772)	(27,737)	(82,509)
Net cash flows from other investments and assets	9,303	—	9,303
Net cash used in investing activities	(2,520,809)	(215,696)	(2,736,505)
Cash Flows from Financing Activities:			
Proceeds from borrowings	9,412,715	—	9,412,715
Principal repayments on and repurchases of borrowings	(6,360,610)	—	(6,360,610)
Payment of deferred financing costs	(67,218)	—	(67,218)
Proceeds from common stock issuances, net of offering costs	586	—	586
Payment of dividends	(509,966)	—	(509,966)
Contributions from non-controlling interests	13,407	—	13,407
Distributions to non-controlling interests	(256,404)	527	(255,877)
Purchase of treasury stock	(12,090)	—	(12,090)
Issuance of debt of consolidated VIEs	102,474	(102,474)	—
Repayment of debt of consolidated VIEs	(410,453)	410,453	—
Distributions of cash from consolidated VIEs	92,283	(92,283)	—
Net cash provided by financing activities	2,004,724	216,223	2,220,947
Net increase in cash, cash equivalents and restricted cash	69,385	3,172	72,557
Cash, cash equivalents and restricted cash, beginning of year	418,273	(5,726)	412,547
Effect of exchange rate changes on cash	207	—	207
Cash, cash equivalents and restricted cash, end of year	$ 487,865	$ (2,554)	$ 485,311

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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) purchases 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 $72.6 million during the year ended December 31, 2018, reflecting net cash provided by operating activities of $588.1 million and net cash provided by financing activities of $2.2 billion, partially offset by net cash used in investing activities of $2.7 billion.

Net cash provided by operating activities of $588.1 million during the year ended December 31, 2018 related primarily to cash interest income of $515.3 million from our loan origination and conduit programs and cash interest income on investment securities of $162.3 million. Net rental income provided cash of $223.6 million and servicing fees provided cash of $110.8 million. Proceeds from principal collections and sales of loans held-for-sale, net of originations and purchases, provided cash of $141.8 million and a net change in operating assets and liabilities provided cash of $13.8 million. Offsetting these cash inflows was cash interest expense of $337.6 million, general and administrative expenses of $143.9 million, management fees of $92.3 million and business combination costs of $8.6 million.

Net cash used in investing activities of $2.7 billion for the year ended December 31, 2018 related primarily to the acquisition of the Infrastructure Lending Segment for $2.2 billion, the origination and acquisition of new loans held-for-investment of $4.4 billion, the purchase of investment securities of $877.9 million and the purchase of properties and other assets of $82.5 million, partially offset by the proceeds received from principal collections and sales of loans of $3.9 billion, investment securities of $596.9 million and sale/recovery of properties of $311.9 million.

Net cash provided by financing activities of $2.2 billion for the year ended December 31, 2018 related primarily to borrowings on our secured debt, net of repayments and deferred loan costs, of $2.9 billion, including $1.7 billion to finance the acquisition of the Infrastructure Lending Segment, and net borrowings after repayments of our unsecured debt of $97.5 million, partially offset by dividend distributions of $510.0 million and net distributions to non-controlling interests of $242.5 million. The net distributions to non-controlling interests were principally related to the 2018 closing of the Woodstar II Portfolio acquisition.

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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, 2018, 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.

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The following table is a summary of our secured financing facilities as of December 31, 2018 (dollars in thousands):

	Current Maturity	Extended Maturity (a)	Pricing	Pledged Asset Carrying Value	Maximum Facility Size	Outstanding Balance	Approved but Undrawn Capacity (b)	Unallocated Financing Amount (c)
Lender 1 Repo 1	(d)	(d)	LIBOR + 1.60% to 5.75%	$ 1,678,448	$ 2,000,000	$ 1,279,979	$ —	$ 720,021
Lender 2 Repo 1	Apr 2020	Apr 2023	LIBOR + 1.50% to 2.50%	542,255	900,000 (e)	384,791	37,000	478,209
Lender 4 Repo 2	May 2021	May 2023	LIBOR + 2.00% to 3.25%	1,141,153	1,000,000	552,345	205,100	242,555
Lender 6 Repo 1	Aug 2021	N/A	LIBOR + 2.00% to 2.75%	655,536	600,000	507,545	—	92,455
Lender 6 Repo 2	Oct 2022	Oct 2023	GBP LIBOR + 2.75%, EURIBOR + 2.25%	386,670	422,090	312,437	—	109,653
Lender 7 Repo 1	Sep 2021	Sep 2023	LIBOR + 1.75% to 2.25%	89,038	250,000	71,720	—	178,280
Lender 10 Repo 1	May 2021	May 2023	LIBOR + 1.50% to 2.75%	200,440	164,840	160,480	—	4,360
Lender 11 Repo 1	Jun 2019	Jun 2020	LIBOR + 2.10%	—	200,000	—	—	200,000
Lender 11 Repo 2	Sep 2019	Sep 2023	LIBOR + 2.00% to 2.50%	355,606	500,000	270,690	—	229,310
Lender 12 Repo 1	Jun 2021	Jun 2024	LIBOR + 2.10% to 2.45%	57,368	250,000	43,500	—	206,500
Lender 13 Repo 1	(f)	(f)	LIBOR + 1.50%	18,425	200,000	14,824	—	185,176
Lender 7 Secured Financing	Feb 2021	Feb 2023	LIBOR + 2.25% (g)	93,085	650,000 (h)	—	69,755	580,245
Lender 8 Secured Financing	Aug 2019	N/A	LIBOR + 4.00%	—	—	—	—	—

Conduit Repo 2	Nov 2019	Nov 2020	LIBOR + 2.25%		47,622	200,000	35,034	—	164,966
Conduit Repo 3	Feb 2020	Feb 2021	LIBOR + 2.10%		—	150,000	—	—	150,000
MBS Repo 1	(i)	(i)	N/A		—	—	—	—	—
MBS Repo 2	Dec 2020	N/A	LIBOR + 1.55% to 1.75%		222,333	159,202	159,202	—	—
MBS Repo 3	(j)	(j)	LIBOR + 1.30% to 1.85%		691,963	427,942	427,942	—	—
MBS Repo 4	(k)	N/A	LIBOR + 1.70%		155,063	110,000	13,824	81,272	14,904
MBS Repo 5	Dec 2028	Jun 2029	4.21%		57,619	150,000	55,437	—	94,563
Investing and Servicing Segment Property Mortgages	May 2020 to Jun 2026	N/A	Various		263,725	242,499	219,237	—	23,262
Ireland Mortgage	Oct 2025	N/A	1.93%		460,581	362,854	362,854	—	—
Woodstar I Mortgages	Nov 2025 to Oct 2026	N/A	3.72% to 3.97%		346,402	276,748	276,748	—	—
Woodstar I Government Financing	Mar 2026 to Jun 2049	N/A	1.00% to 5.00%		195,903	131,179	131,179	—	—
Woodstar II Mortgages	Jan 2028 to Apr 2028	N/A	3.81% to 3.85%		530,299	417,669	417,669	—	—
Woodstar II Government Financing	Jun 2030 to Aug 2052	N/A	1.00% to 3.19%		39,126	25,311	25,311	—	—
Medical Office Mortgages	Dec 2021	Dec 2023	LIBOR + 2.50%		680,335	524,499	492,828	—	31,671
Master Lease Mortgages	Oct 2027	N/A	4.38%		333,107	194,900	194,900	—	—
Infrastructure Lending Facility	Sep 2021	Sep 2022	Various		1,905,469	2,020,971	1,551,148	—	469,823
Term Loan A	Dec 2020	Dec 2021	LIBOR + 2.25%	(g)	912,857	300,000	300,000	—	—
Revolving Secured Financing	Dec 2020	Dec 2021	LIBOR + 2.25%	(g)	—	100,000	—	100,000	—
FHLB	Feb 2021	N/A	Various		623,660	500,000	500,000	—	—
					$ 12,684,088	$13,430,704	8,761,624 (963)	$ 493,127	$ 4,175,953

Unamortized net discount	
Unamortized deferred financing costs	(77,096)
	$ 8,683,565

(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 lender 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 lender.

(d) Maturity date for borrowings collateralized by loans is September 2019 with an additional extension option to September 2021. Borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions and not to exceed September 2025.

(e) The initial maximum facility size of $600.0 million may be increased to $900 million at our option, subject to certain conditions.

(f) Maturity date for borrowings collateralized by loans is May 2020 with an additional extension option to August 2021. Borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions.

(g) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement.

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

(i) Facility carries a rolling 11-month term which may reset monthly with the lender's consent. This facility carries no maximum facility size.

(j) Facility carries a rolling 12-month term which may reset monthly with the lender's consent. Current maturity is December 2019. This facility carries no maximum facility size. Amounts reflect the outstanding balance as of December 31, 2018.

(k) The date that is 270 days after the buyer delivers notice to seller, subject to a maximum date of May 2020.

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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, 2018.

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, 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 new Infrastructure Lending Facility.

(c) Variance primarily due to the following: (i) $83.0 million repaid on the Lender 4 Repo 2 facility in December 2018; and (ii) $37.0 million repaid on the Lender 2 Repo 1 facility in December 2018.

Quarter Ended	Quarter-End Balance	Weighted-Average Balance During Quarter	Variance	Explanations for Significant Variances
March 31, 2017	$ 4,456,347	$ 4,154,497	$ 301,850	(a)
June 30, 2017	4,788,996	4,591,428	197,568	(b)
September 30, 2017	5,555,720	5,020,575	535,145	(c)
December 31, 2017	5,813,447	5,885,681	(72,234)	(d)

(a) Variance primarily due to the following: (i) $336.8 million drawn on the Lender 1 Repo 1 facility in March 2017.

(b) Variance primarily due to the following: (i) $136.8 million drawn on the Lender 10 Repo 1 facility in May 2017; and (ii) $60.0 million drawn on the Lender 4 Repo 2 facility throughout the quarter.

(c) Variance primarily due to the following: (i) $265.9 million drawn on the Master Lease Mortgages in September 2017; (ii) $265.3 million drawn on the Lender 6 Repo 1 facility throughout the quarter; and (iii) $250.0 million drawn on FHLB in July 2017.

(d) Variance primarily due to the following: (i) $188.7 million repaid on former Lender 9 Repo 1 throughout the quarter; and (ii) $59.0 million repaid on Lender 10 Repo 1 in December 2017; partially offset by (iii) $195.0 million drawn on FHLB throughout the quarter.

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Borrowings under Unsecured Senior Notes

During the years ended December 31, 2018 and 2017, the weighted average effective borrowing rate on our unsecured senior notes was 4.8% and 5.5%, 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 upon the amounts outstanding and contractual terms of the financing facilities in effect as of December 31, 2018 (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 2019	$ 444,996	$ 16,430	$ (178,517)		$ 282,909
Second Quarter 2019	581,057	22,476	(52,704)		550,829
Third Quarter 2019	319,730	17,359	(62,468)		274,621
Fourth Quarter 2019	644,721	17,416	(618,312)	(1)	43,825
Total	$ 1,990,504	$ 73,681	$ (912,001)		$ 1,152,184

(1) Includes $418.2 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, 2018, we had 100,000,000 shares of preferred stock available for issuance and 224,340,448 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 certain investment securities which no longer meet our return requirements.

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Repurchases of Equity Securities and Convertible Senior Notes

In September 2014, our board of directors authorized and announced the repurchase of up to $250.0 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 senior notes under the program and (iii) extended through January 2019. Purchases made pursuant to the program are 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 are discretionary and are subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program may be suspended or discontinued at any time. During the year ended December 31, 2018, we repurchased $12.1 million of common stock and no convertible senior notes under the repurchase program. As of December 31, 2018, we had $250.1 million of remaining capacity to repurchase common stock and/or convertible senior notes under the repurchase program.

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 2018 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
12/29/2017	1/12/2018	$ 0.3344	$ 0.2699	$ 0.0253	$ 0.0645	$ 0.0012	$ —	$ 0.2446
3/30/2018	4/13/2018	0.4800	0.3874	0.0364	0.0926	0.0018	—	0.3510
6/29/2018	7/13/2018	0.4800	0.3874	0.0364	0.0926	0.0018	—	0.3510

9/28/2018	10/15/2018	0.4800	0.3874	0.0364	0.0926	0.0018	—	0.3510
12/31/2018	1/15/2019	0.1620	0.1307	0.0123	0.0313	0.0006	—	0.1184
		$ 1.9364	$ 1.5628	$ 0.1468	$ 0.3736	$ 0.0072	$ —	$ 1.4160

To the extent that total dividends for the 2018 tax year exceeded 2018 taxable income, the portion of the fourth quarter dividend paid in January of 2019 that is equal to such excess is treated as a 2019 dividend for federal tax purposes.

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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 75% 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, 2018, our total debt to assets ratio was 66.9%.

Contractual Obligations and Commitments

Contractual obligations as of December 31, 2018 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)	$ 8,761,624	$ 726,481	$ 2,301,610	$ 3,268,839	$ 2,464,694
Unsecured senior notes	2,027,969	77,969	1,200,000	250,000	500,000
Secured borrowings on transferred loans (b)	74,692	—	74,692	—	—
Loan funding commitments (c)	2,011,314	1,208,233	739,597	63,484	—
Infrastructure Lending Segment commitments (d)	409,660	383,357	26,303	—	—
Loan purchase commitments (e)	150,000	150,000	—	—	—
Future lease commitments	28,107	6,703	9,139	689	11,576
Total	$ 13,463,366	$ 2,552,743	$ 4,351,341	$ 3,583,012	$ 2,976,270

(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) These amounts relate to financial asset sales that were required to be accounted for as secured borrowings. As a result, the assets we sold remain on our consolidated balance sheet for financial reporting purposes. Such assets are expected to provide match funding for these liabilities.

(c) Excludes $193.0 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.

(d) Represents contractual commitments of $240.5 million under revolvers and letters of credit ("LCs") and $169.2 million under delayed draw term commitment.

(e) Represents the Company's contractual commitments to purchase residential mortgage loans from a third party residential mortgage originator.

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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 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 $39.2 million as of December 31, 2018, which includes $38.2 million of impairment reserves on specific loans recorded during 2018 and a general loan loss allowance of $1.0 million based on our loan risk rating system.

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 ("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, 2018, we held $209.1 million of available for sale RMBS which had gross unrealized gains of $53.5 million and immaterial unrealized losses. We also had $644.1 million of held to maturity debt securities which had gross unrealized losses of $3.5 million and gross unrealized gains of $3.3 million as of December 31, 2018. We recognized no material OTTI charges against earnings with respect to our investment securities during the years ended December 31, 2018, 2017 and 2016.

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, 2018, we had $54.5 billion and $52.2 billion of financial assets and liabilities, respectively, that are measured at fair value, including $53.4 billion of VIE assets and $52.2 billion of VIE liabilities we consolidate pursuant to ASC 810.

We measure the assets and liabilities of consolidated VIEs at fair value pursuant to our election of the fair value option. The VIEs in which we invest are “static”; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the VIE, we maximize the use of observable inputs over unobservable inputs. 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, 2018 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, 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.

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Based on our qualitative assessments during the fourth quarter of 2018, 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. The first annual goodwill impairment test for the recently-acquired Infrastructure Lending Segment will occur in the fourth quarter of 2019 and is expected to require the application of similar judgment.

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 operation. As of December 31, 2018 we held properties with a carrying value of $2.8 billion, none of which we determined were impaired at any point during the year ended December 31, 2018.

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 cost method investments. 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 and available information at the time the analyses are prepared. As of December 31, 2018, we held investments in unconsolidated entities with a carrying value of $171.8 million, none of which we determined were impaired at any point during the year ended December 31, 2018.

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 Manager's 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.

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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, 2018 and December 31, 2017 (dollars in thousands):

	Face Value of Loans Held-for-Sale	Aggregate Notional Value of Credit Index Instruments	Number of Credit Index Instruments
December 31, 2018	$ 46,249	$ 24,000	3
December 31, 2017	$ 132,393	$ 49,000	8

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, 2018 and 2017 (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, 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
Instrument hedged as of December 31, 2017			
Loans held-for-sale	$ 232,393	$ 213,600	16

RMBS, available-for-sale	366,711	69,000	2
Secured financing agreements	1,051,458	1,009,180	16
Unsecured senior notes	500,000	470,000	1
	$ 2,150,562	$ 1,761,780	35

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The following table summarizes the estimated annual change in net investment income for our LIBOR based investments and our LIBOR based debt assuming increases or decreases in LIBOR 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)	3.0% Increase	2.0% Increase	1.0% Increase	1.0% Decrease (2)
Investment income from variable rate investments	$ 9,201,847	$ 271,596	$ 180,774	$ 89,953	$ (78,821)
Interest expense from variable rate debt, net of interest rate derivatives	(6,575,970)	(203,309)	(137,357)	(70,107)	66,157
Net investment income from variable rate instruments	$ 2,625,877	$ 68,287	$ 43,417	$ 19,846	$ (12,664)
Impact per diluted shares outstanding		$ 0.24	$ 0.15	$ 0.07	$ (0.04)

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

(2) Assumes LIBOR does not go below 0%.

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.

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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, 2018 GBP closing rate of 1.2757, Euro (“EUR”) closing rate of 1.1472, Canadian Dollar (“CAD”) closing rate of 0.7333 and Australian Dollar (“AUD”) closing rate of 0.7049:

Carrying Value of Net Investment	Local Currency	Number of Foreign Exchange Contracts		Aggregate Notional Value of Hedges Applied	Expiration Range of Contracts
$ 2,523	GBP	1		$ 4,117	April 2019
71,746	GBP	49		71,726	January 2019 – June 2020
22,434	GBP	10		27,525	April 2019 – July 2021
29,389	EUR	8		37,756	May 2020 – March 2022
21,274	EUR	15		31,060	February 2019 – August 2022
2,432	GBP	1		4,030	April 2019
53,113	GBP	6		60,873	January 2019 – April 2021
240	GBP	1		359	March 2019
3,393	AUD	4		5,725	January 2019 – October 2019
4,968	CAD	16		6,640	January 2019 – October 2022
923	EUR	18		6,904	January 2019 – October 2022
3,067	GBP	16		6,444	January 2019 – October 2022
158,640	EUR	18	(1)	243,008	March 2019 – June 2020
27,600	GBP	12		36,323	March 2019 – December 2021
55,320	GBP	48		77,928	February 2019 – November 2021
4,585	GBP	1		4,681	April 2019
11,893	GBP	2		11,849	March 2019 – April 2019
7,585	EUR	3		11,277	April 2019
$ 481,125		229		$ 648,225	

(1) These foreign exchange contracts hedge our EUR currency exposure created by our acquisition of the Ireland Portfolio.

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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.

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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.

Greenwich, Connecticut

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, 2018 and 2017, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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 28, 2019, 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.

/s/ DELOITTE & TOUCHE LLP
Miami, Florida
February 28, 2019

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Starwood Property Trust, Inc.

Greenwich, Connecticut

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, 2018, 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, 2018, 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 and financial statement schedules as of and for the year ended December 31, 2018, of the Company and our report dated February 28, 2019, expressed an unqualified opinion on those financial statements and financial statement schedules.

As described in Management Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at the Infrastructure Lending Segment, which was acquired on September 19, 2018, and whose financial statements constitute 3% of total revenues, less than 1% of net income and 3% of total assets of the consolidated financial statement amounts as of and for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting at the Infrastructure Lending Segment.

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.

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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 28, 2019

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Starwood Property Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands, except share data)

	As of December 31, 2018	2017
Assets:		
Cash and cash equivalents	$ 239,824	$ 369,448
Restricted cash	248,041	48,825
Loans held-for-investment, net	8,532,356	6,562,495
Loans held-for-sale ($671,282 and $745,743 held at fair value)	1,187,552	745,743
Loans transferred as secured borrowings	74,346	74,403
Investment securities ($262,319 and $284,735 held at fair value)	906,468	718,203
Properties, net	2,784,890	2,647,481
Intangible assets ($20,557 and $30,759 held at fair value)	145,033	183,092
Investment in unconsolidated entities	171,765	185,503
Goodwill	259,846	140,437
Derivative assets	52,691	33,898
Accrued interest receivable	60,355	47,747
Other assets	152,922	138,140
Variable interest entity (“VIE”) assets, at fair value	53,446,364	51,045,874
Total Assets	$ 68,262,453	$ 62,941,289
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 217,663	$ 185,117
Related-party payable	44,043	42,369
Dividends payable	133,466	125,916
Derivative liabilities	15,415	36,200
Secured financing agreements, net	8,683,565	5,773,056
Unsecured senior notes, net	1,998,831	2,125,235
Secured borrowings on transferred loans, net	74,239	74,185
VIE liabilities, at fair value	52,195,042	50,000,010
Total Liabilities	63,362,264	58,362,088
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, 280,839,692 issued and 275,659,552 outstanding as of December 31, 2018 and 265,983,309 issued and 261,376,424 outstanding as of December 31, 2017	2,808	2,660
Additional paid-in capital	4,995,156	4,715,246
Treasury stock (5,180,140 shares and 4,606,885 shares)	(104,194)	(92,104)
Accumulated other comprehensive income	58,660	69,924
Accumulated deficit	(348,998)	(217,312)
Total Starwood Property Trust, Inc. Stockholders’ Equity	4,603,432	4,478,414

Non-controlling interests in consolidated subsidiaries	296,757	100,787
Total Equity	4,900,189	4,579,201
Total Liabilities and Equity	$ 68,262,453	$ 62,941,289

See notes to consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

(Amounts in thousands, except per share data)

	For the Year Ended December 31,		
	2018	2017	2016
Revenues:			
Interest income from loans	$ 620,543	$ 513,814	$ 467,195
Interest income from investment securities	56,839	52,813	70,848
Servicing fees	78,766	61,446	88,956
Rental income	349,684	249,000	152,760
Other revenues	3,448	2,815	4,908
Total revenues	1,109,280	879,888	784,667
Costs and expenses:			
Management fees	129,455	122,699	117,451
Interest expense	408,188	295,666	230,799
General and administrative	136,132	129,587	152,941
Acquisition and investment pursuit costs	8,587	3,472	13,462
Costs of rental operations	127,068	94,258	65,101
Depreciation and amortization	132,649	93,603	66,786
Loan loss allowance, net	34,821	(5,458)	3,759
Other expense	732	1,422	828
Total costs and expenses	977,632	735,249	651,127
Other income (loss):			
Change in net assets related to consolidated VIEs	165,892	252,434	151,593
Change in fair value of servicing rights	(10,202)	(24,323)	(47,149)
Change in fair value of investment securities, net	10,345	(3,811)	(1,401)
Change in fair value of mortgage loans held-for-sale, net	40,522	66,987	74,251
Earnings from unconsolidated entities	10,540	30,505	21,723
Gain on sale of investments and other assets, net	59,044	20,499	1,942
Gain (loss) on derivative financial instruments, net	34,603	(72,532)	70,734
Foreign currency (loss) gain, net	(9,245)	33,671	(33,967)
Total other-than-temporary impairment (“OTTI”)	—	(180)	(54)
Noncredit portion of OTTI recognized in other comprehensive income	—	71	54
Net impairment losses recognized in earnings	—	(109)	—
Loss on extinguishment of debt	(5,808)	(5,915)	(8,781)
Other (loss) income, net	(812)	2,244	13,510
Total other income	294,879	299,650	242,455
Income before income taxes	426,527	444,289	375,995
Income tax provision	(15,330)	(31,522)	(8,344)
Net income	411,197	412,767	367,651
Net income attributable to non-controlling interests	(25,367)	(11,997)	(2,465)
Net income attributable to Starwood Property Trust, Inc.	$ 385,830	$ 400,770	$ 365,186

Earnings per share data attributable to Starwood Property Trust, Inc.:			
Basic	$ 1.44	$ 1.53	$ 1.52
Diluted	$ 1.42	$ 1.52	$ 1.50

See notes to consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Amounts in thousands)

	For the Year Ended December 31,		
	2018	2017	2016
Net income	$ 411,197	$ 412,767	$ 367,651
Other comprehensive (loss) income (net change by component):			
Cash flow hedges	(25)	51	39
Available-for-sale securities	(4,374)	12,960	7,622
Foreign currency translation	(6,865)	20,775	(1,252)
Other comprehensive (loss) income	(11,264)	33,786	6,409
Comprehensive income	399,933	446,553	374,060
Less: Comprehensive income attributable to non-controlling interests	(25,367)	(11,997)	(2,465)
Comprehensive income attributable to Starwood Property Trust, Inc.	$ 374,566	$ 434,556	$ 371,595

See notes to consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Equity

(Amounts in thousands, except share data)

ommon stock hares	Par Value	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Starwood Property Trust, Inc. Stockholders' Equity	Non-Controlling Interests
41,044,775	$ 2,410	$ 4,192,844	3,553,996	$ (72,381)	$ (12,286)	$ 29,729	$ 4,140,316	$ 30,627
0,470,000	205	448,620	—	—	—	—	448,825	—
9,451	—	405	—	—	—	—	405	—
—	—	(778)	—	—	—	—	(778)	—
—	—	—	1,052,889	(19,723)	—	—	(19,723)	—
—	—	(355)	—	—	—	—	(355)	—
427,027	15	32,618	—	—	—	—	32,633	—
32,553	9	17,826	—	—	—	—	17,835	—
—	—	—	—	—	365,186	—	365,186	2,465
—	—	—	—	—	(468,479)	—	(468,479)	—
—	—	—	—	—	—	6,409	6,409	—
—	—	—	—	—	—	—	—	254
—	—	—	—	—	—	—	—	11,387

—	—	—	—	—	—	—	—	(6,934)
63,893,806	$ 2,639	$ 4,691,180	4,606,885	$ (92,104)	$ (115,579)	$ 36,138	$ 4,522,274	$ 37,799
1,626	—	702	—	—	—	—	702	—
—	—	(15)	—	—	—	—	(15)	—
—	—	3,755	—	—	—	—	3,755	—
—	—	(18,105)	—	—	—	—	(18,105)	—
178,565	12	18,139	—	—	—	—	18,151	—
79,312	9	19,590	—	—	—	—	19,599	—
—	—	—	—	—	400,770	—	400,770	11,997
—	—	—	—	—	(502,503)	—	(502,503)	—
—	—	—	—	—	—	33,786	33,786	—
—	—	—	—	—	—	—	—	1,718
—	—	—	—	—	—	—	—	145,283
—	—	—	—	—	—	—	—	(96,010)
65,983,309	$ 2,660	$ 4,715,246	4,606,885	$ (92,104)	$ (217,312)	$ 69,924	$ 4,478,414	$ 100,787
3,406	—	608	—	—	—	—	608	—
—	—	(22)	—	—	—	—	(22)	—

2,407,081	124	238,760	—	—	—	—	238,884	—
—	—	—	573,255	(12,090)	—	—	(12,090)	—
421,979	14	22,744	—	—	—	—	22,758	—
98,917	10	20,782	—	—	—	—	20,792	—
—	—	—	—	—	385,830	—	385,830	25,367
—	—	—	—	—	(517,516)	—	(517,516)	—
—	—	—	—	—	—	(11,264)	(11,264)	—
—	—	—	—	—	—	—	—	(5,669)
—	—	—	—	—	—	—	—	430,033
—	—	(2,962)	—	—	—	—	(2,962)	(253,442)
—	—	—	—	—	—	—	—	(319)
30,839,692	$ 2,808	$ 4,995,156	5,180,140	$ (104,194)	$ (348,998)	$ 58,660	$ 4,603,432	$ 296,757

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,		
	2018	2017	2016
Cash Flows from Operating Activities:			
Net income	$ 411,197	$ 412,767	$ 367,651
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Amortization of deferred financing costs, premiums and discounts on secured financing agreements and secured borrowings on transferred loans	27,832	19,298	16,190
Amortization of discounts and deferred financing costs on senior notes	11,785	21,531	21,667
Accretion of net discount on investment securities	(15,253)	(15,208)	(16,527)
Accretion of net deferred loan fees and discounts	(38,099)	(39,084)	(48,384)
Share-based compensation	22,758	18,151	32,633
Share-based component of incentive fees	20,792	19,599	17,835
Change in fair value of investment securities	(10,345)	3,811	1,401
Change in fair value of consolidated VIEs	(17,408)	(69,483)	28,734
Change in fair value of servicing rights	10,202	24,323	47,149
Change in fair value of loans held-for-sale	(40,522)	(66,987)	(74,251)
Change in fair value of derivatives	(30,828)	68,309	(75,122)
Foreign currency gain (loss), net	9,158	(33,439)	33,660
Gain on sale of investments and other assets	(59,044)	(20,499)	(1,942)
Impairment charges on properties and related intangibles	1,869	1,146	728
Loan loss allowance, net	34,821	(5,458)	3,759
Depreciation and amortization	130,838	90,896	61,571
Earnings from unconsolidated entities	(10,540)	(30,505)	(21,723)
Distributions of earnings from unconsolidated entities	5,917	67,542	19,983
Bargain purchase gain	—	—	(8,406)
Loss on extinguishment of debt	5,808	5,915	8,781
Origination and purchase of loans held-for-sale, net of principal collections	(2,105,232)	(2,199,390)	(1,669,543)
Proceeds from sale of loans held-for-sale	2,246,989	1,582,050	1,884,352
Changes in operating assets and liabilities:			
Related-party payable, net	1,674	4,551	(3,137)
Accrued and capitalized interest receivable, less purchased interest	(62,261)	(94,077)	(76,071)
Other assets	8,207	(35,300)	12,383
Accounts payable, accrued expenses and other liabilities	25,155	22,702	(6,741)
Net cash provided by (used in) operating activities	585,470	(246,839)	556,630
Cash Flows from Investing Activities:			
Origination and purchase of loans held-for-investment	(4,428,891)	(3,234,987)	(2,815,333)
Proceeds from principal collections on loans	3,057,430	2,562,515	2,667,929
Proceeds from loans sold	835,849	52,609	382,881

Purchase of investment securities	(492,400)	(98,394)	(360,341)
Proceeds from sales of investment securities	16,427	11,579	18,725
Proceeds from principal collections on investment securities	382,924	232,793	108,790
Infrastructure lending business combination	(2,158,553)	—	—
Real estate business combinations, net of cash and restricted cash acquired	—	(17,639)	(849,950)
Proceeds from sales and insurance recoveries on properties	311,874	55,739	—
Purchases and additions to properties and other assets	(54,772)	(573,930)	(15,963)
Investment in unconsolidated entities	(3,100)	(32,186)	(11,148)
Distribution of capital from unconsolidated entities	21,461	14,252	15,895
Payments for purchase or termination of derivatives	(29,581)	(40,518)	(27,820)
Proceeds from termination of derivatives	20,523	31,456	85,614
Return of investment basis in purchased derivative asset	—	151	272
Restricted cash divested of European servicing and advisory business	—	—	(89)
Net cash used in investing activities	(2,520,809)	(1,036,560)	(800,538)

See notes to consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

(Amounts in thousands)

	For the Year Ended December 31,		
	2018	2017	2016
Cash Flows from Financing Activities:			
Proceeds from borrowings	$ 9,412,715	$ 6,273,600	$ 6,024,032
Principal repayments on and repurchases of borrowings	(6,360,610)	(4,586,509)	(5,266,115)
Payment of deferred financing costs	(67,218)	(22,703)	(37,304)
Proceeds from common stock issuances	608	702	449,230
Payment of equity offering costs	(22)	(647)	(718)
Payment of dividends	(509,966)	(501,663)	(458,351)
Contributions from non-controlling interests	13,407	106	11,387
Distributions to non-controlling interests	(256,404)	(96,010)	(6,934)
Purchase of treasury stock	(12,090)	—	(19,723)
Issuance of debt of consolidated VIEs	102,474	25,605	35,728
Repayment of debt of consolidated VIEs	(410,453)	(137,208)	(283,012)
Distributions of cash from consolidated VIEs	92,283	92,411	57,293
Net cash provided by financing activities	2,004,724	1,047,684	505,513
Net increase (decrease) in cash, cash equivalents and restricted cash	69,385	(235,715)	261,605
Cash, cash equivalents and restricted cash, beginning of year	418,273	650,755	391,884
Effect of exchange rate changes on cash	207	3,233	(2,734)
Cash, cash equivalents and restricted cash, end of year	$ 487,865	$ 418,273	$ 650,755
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 337,605	$ 250,690	$ 185,053
Income taxes paid	10,900	20,767	9,742
Supplemental disclosure of non-cash investing and financing activities:			
Dividends declared, but not yet paid	$ 133,237	$ 125,844	$ 125,075
Consolidation of VIEs (VIE asset/liability additions)	9,885,200	3,925,370	21,289,873
Deconsolidation of VIEs (VIE asset/liability reductions)	1,649,485	2,480,125	5,717,982
Net assets acquired from consolidated VIEs	27,737	31,547	181,689
Fair value of assets acquired, net of cash and restricted cash	2,167,652	18,507	1,043,112
Fair value of liabilities assumed	9,099	760	184,756
Contribution of Woodstar II Portfolio net assets from non-controlling interests	416,626	145,177	—
Settlement of 2019 Convertible Notes in shares	271,243	—	—
Settlement of loans transferred as secured borrowings	—	35,000	68,206
Unsettled derivative transactions	—	—	28,472
Net assets divested of Europe servicing and advisory business, net of cash and restricted cash	—	—	1,349
Equity interest acquired in Situs Group Holdings Corporation	—	—	12,234

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2018

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 (“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, 2018 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,” formerly known as “Real estate lending”)—engages primarily in originating, acquiring, financing and managing commercial and residential first mortgages, subordinated mortgages, mezzanine loans, preferred equity, 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 and controlled by Mr. Sternlicht.

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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.

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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, certain other entities in which we hold interests are considered VIEs as the limited partners of these 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.

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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 2% of our consolidated securitization VIE assets, with the remaining 98% representing loans. However, it is important to note that the fair value of our securitization VIE assets is determined by reference to our securitization VIE liabilities as permitted under 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 eligible financial assets and liabilities of our consolidated securitization VIEs, loans held for sale originated or acquired for future securitization, purchased CMBS issued by VIEs we could consolidate in the future and certain investments in marketable equity securities which, effective January 1, 2018, are now required to be carried at fair value through earnings. The fair value elections for VIE and securitization related items were made in order to mitigate accounting mismatches between the carrying value of the instruments and the related assets and liabilities that we consolidate at fair value. The fair value elections for mortgage loans held-for-sale were made due to the expected short-term holding period of these instruments.

Fair Value Measurements

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

As discussed above, we measure the assets and liabilities of consolidated securitization VIEs at fair value pursuant to our election of the fair value option. The securitization VIEs in which we invest are “static”; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the securitization VIEs, we maximize the use of observable inputs over unobservable inputs. Refer to Note 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.

Prior to our early adoption of ASU 2017-01, we applied the business combination provisions of ASC 805 in accounting for most acquisitions of real estate assets with in-place leases.

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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.

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.

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.

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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, 2018 or 2017.

Servicing Rights Intangibles

Our identifiable intangible assets include U.S. special servicing rights and, until October 2016, also included European servicing rights. For the U.S. special servicing rights, 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. For the European servicing rights, the amortization method was elected and the asset was amortized in proportion to and over the period of estimated net servicing income.

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

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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.

Lease Classification

In accordance with ASC 840, Leases, we evaluate all new or amended leases to determine if the lease (i) provides for a transfer of ownership to the lessee at the conclusion of the lease, (ii) provides the lessee with a bargain purchase option, (iii) has a term of 75% or more of the leased asset's remaining useful life or (iv) has minimum lease payments with a present value of 90% or more of the leased asset's fair value. If any of these conditions exist, we account for the lease as a capital lease, otherwise, the lease is considered an operating lease.

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 cost method 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 cost method equity investments discussed 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 cost method equity investments within the scope of this ASU do not have readily determinable fair values. Therefore, we have elected the practicability exception whereby we measure these investments at cost, less impairment, plus or minus observable price changes from orderly transactions of identical or similar investments of the same issuer.

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 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, 2018 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, 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 the convertible senior 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.

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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, will be 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 yield. This amount of non accretable yield 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).

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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.

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Effective July 1, 2018, we early adopted ASU 2018-07, Compensation – Stock Compensation (Topic 718) –Improvements to Nonemployee Share-Based Payment Accounting, which aligns the accounting for nonemployee share-based compensation with the existing accounting model for employee share based compensation. Prior to our adoption of ASU 2018-07, nonemployee share awards were recognized as an expense on a straight-line basis over the vesting period of the award with the fair value of the award remeasured at each vesting date. After our adoption of ASU 2018-07, nonemployee share awards continue to be recorded as expense on a straight-line basis over their vesting period, however, the fair value of the award will only be determined on the grant date and not remeasured at subsequent vesting dates, consistent with the accounting for employee share awards. For non-employee awards granted prior to our July 1, 2018 adoption date, the awards 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.

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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 RSUs and RSAs, (ii) shares contingently issuable to our Manager, (iii) the conversion options associated with our outstanding convertible senior 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, 2018, 2017 and 2016, 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 February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes a right-of-use model for lessee accounting which results in the recognition of most leased assets and lease liabilities on the balance sheet of the lessee. Lessor accounting was not significantly changed by this ASU. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2018 by applying a modified retrospective approach. Early application is permitted. On July 30, 2018, the FASB issued ASU 2018-11, Leases (Topic 842) – Targeted Improvements, which provides an optional transition method of applying the new leases standard at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. It also provides lessors with a practical expedient to not separate non-lease revenue components from the associated lease component if certain conditions are met. On December 10, 2018, the FASB issued ASU 2018-20, Leases (Topic 842) – Narrow-Scope Improvements for Lessors, which makes amendments related to sales and similar taxes, certain lessor costs and recognition of variable payments for contracts with lease and non-lease components. We currently do not expect the application of these ASUs to have a material impact as the Company primarily acts as a lessor.

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

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

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

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

On October 31, 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810) – Targeted Improvements to Related Party Guidance for Variable Interest Entities, which requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety for determining whether a decision-making fee is a variable interest. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2019. Early application is permitted. We are in the process of assessing the impact this ASU will have on the Company, but do not expect it to be material.

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3. Acquisitions and Divestitures

Infrastructure Lending Segment

On September 19, 2018, we acquired the project finance origination, underwriting and capital markets business of GE Capital Global Holdings, LLC ("GE Capital") for approximately $2.0 billion (the "Infrastructure Lending Segment") 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.

The Infrastructure Lending Portfolio is 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 are 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. From the acquisition dates through December 31, 2018, we have recognized revenues of $30.7 million and a net loss of $2.6 million related to the portfolio. Such net loss primarily reflects interest income from loans and investment securities of $30.1 million, offset by interest expense of $20.9 million, general and administrative expenses of $5.6 million and one-time acquisition-related costs including a $3.0 million commitment fee related to an unused bridge financing facility and legal and due diligence costs of $3.8 million.

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

During the three months ended December 31, 2018, in accordance with ASU 2015-16, Business Combinations (Topic 805) – Simplifying the Accounting for Measurement-Period Adjustments, we adjusted our initial provisional estimates of the acquisition date fair values of the identified assets acquired and liabilities assumed to reflect new information obtained regarding facts and circumstances that existed at the September 19, 2018 acquisition date. The following table summarizes the measurement period adjustment applied to the initial provisional acquisition date balance sheet from the September 19, 2018 acquisition date, as well as the identified assets acquired and liabilities assumed at the

October 15, 2018 acquisition date (amounts in thousands):

Assets acquired:	Initial September 19, 2018 Acquisition	Measurement Period Adjustment	October 15, 2018 Acquisition	Adjusted Amounts
Loans held-for-investment	$ 1,506,544	$ (3,189)	$ 146,275	$ 1,649,630
Loans held-for-sale	319,879	(169)	—	319,710
Investment securities	65,060	—	—	65,060
Accrued interest receivable	12,566	427	850	13,843
Total identifiable assets acquired	1,904,049	(2,931)	147,125	2,048,243
Liabilities assumed:				
Accounts payable, accrued expenses and other liabilities	8,327	490	—	8,817
Derivative liabilities	282	—	—	282
Total liabilities assumed	8,609	490	—	9,099
Net assets acquired	$ 1,895,440	$ (3,421)	$ 147,125	$ 2,039,144

The net income effect associated with the measurement period adjustment during the three months ended December 31, 2018 was immaterial.

Investing and Servicing Segment Property Portfolio

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 total gross purchase price of $53.1 million. These properties, aggregated with the controlling interests in 16 remaining commercial real estate properties acquired from CMBS trusts prior to December 31, 2017 for an aggregate acquisition price of $248.9 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, we sold nine properties within the Investing and Servicing Segment for $77.9 million recognizing a total gain on sale of $26.6 million within gain on sale of investments and other assets in our consolidated statements of operations. 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, 2018, $5.1 million of the gain on sale was attributable to non-controlling interests. During the year ended December 31, 2017, we sold five properties within the Investing and Servicing Segment for $52.4 million recognizing gain on sale of $19.8 million within gain on sale of investments and other assets in our consolidated statement of operations. During the year ended December 31, 2017, $3.3 million of such gains were attributable to non-controlling interests. No Investing and Servicing segment properties were sold during the year ended December 31, 2016.

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% (as set forth in Note 10).

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. Initially, the Class A unitholders had the right, commencing six months from issuance, 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. In August 2018, the redemption rights were amended to allow Class A unitholders the option to redeem only after the earlier of (i) October 3, 2018 and (ii) three business days after the August 23, 2018 acquisition of the final property in the Woodstar II Portfolio. No other terms of the redemption rights were amended. No redemptions of Class A Units occurred during the year ended December 31, 2018.

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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. In November 2018, we issued 1,727,314 of the total 1,910,563 contingent Class A Units to the Contributors.

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, Business Combinations.

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 comprise 5.3 million square feet, are geographically dispersed throughout the U.S., with more than 50% of the portfolio, by carrying value, located in Utah, 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 year ended December 31, 2017.

Medical Office Portfolio

The Medical Office Portfolio is comprised of 34 medical office buildings acquired for a purchase price of $758.7 million 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. No goodwill or bargain purchase gains were recognized in connection with the Medical Office Portfolio acquisition as the purchase price equaled the fair value of the net assets acquired.

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 for an aggregate acquisition price of $421.5 million (of which $97.4 million related to 2016). We assumed federal, state and county sponsored financing and other debt in connection with this acquisition.

No goodwill was recognized in connection with the Woodstar Portfolio acquisition as the purchase price did not exceed the fair value of the net assets acquired. A bargain purchase gain of $8.4 million was recognized within other income, net in our consolidated statement of operations for the year ended December 31, 2016 as the fair value of the net assets acquired exceeded the purchase price due to favorable changes in net asset fair values occurring between the date the purchase price was negotiated and the closing date.

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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, Medical Office Portfolio and the Woodstar I Portfolio. In doing so, we have recorded all identifiable assets acquired and liabilities assumed at fair value as of the respective acquisition dates. These amounts for the Infrastructure Lending Segment are provisional and may be adjusted during the measurement period, which expires no later than one year from the acquisition date, if new information is obtained that, if known, would have affected the amounts recognized as of the acquisition date.

The following table summarizes the identified assets acquired and liabilities assumed as of the respective acquisition dates, including the effect of the measurement period adjustments set forth above (amounts in thousands):

	2018	2017	2016		
	Infrastructure Lending	REIS Equity	Medical Office	Woodstar I	REIS Equity
Assets acquired:	Segment	Portfolio	Portfolio	Portfolio	Portfolio
Cash and cash equivalents	$ —	$ —	$ —	$ 6,254	$ —
Loans held-for-investment	1,649,630	—	—	—	—
Loans held-for-sale	319,710	—	—	—	—
Investment securities	65,060	—	—	—	—
Properties	—	38,770	678,727	245,430	124,479
Intangible assets	—	11,955	85,508	8,174	24,836
Accrued interest receivable	13,843	—	—	—	—
Other assets	—	85	5,233	16,417	2,978
Total identifiable assets acquired	2,048,243	50,810	769,468	276,275	152,293
Liabilities assumed:					
Accounts payable, accrued expenses and other liabilities	8,817	1,516	10,811	19,666	7,216
Derivative liabilities	282	—	—	—	—
Secured financing agreements	—	—	—	150,763	—
Total liabilities assumed	9,099	1,516	10,811	170,429	7,216
Non-controlling interests	—	—	—	—	6,462
Net assets acquired	$ 2,039,144	$ 49,294	$ 758,657	$ 105,846	$ 138,615

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
Preliminary estimate of the fair value of net assets acquired	2,039,144
Goodwill	$ 119,409

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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

Ireland Portfolio

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 years ended December 31, 2018 and 2016. Refer to Note 7 for further discussion of the Ireland Portfolio.

European Servicing and Advisory Business Divestiture

In October 2016, we contributed the equity in the subsidiary which owned our European servicing and advisory business to Situs Group Holdings Corporation (“Situs”) in exchange for a non-controlling 6.25% equity interest valued at $12.2 million. We contributed net assets with a carrying value of $3.2 million and recognized a gain of $0.2 million in connection with the exchange, which includes an $8.8 million loss resulting from a release of the accumulated foreign currency translation adjustment component of equity, all recognized within gain on sale of investments and other assets, net in our consolidated statement of operations for the year ended December 31, 2016. We account for the interest we received in Situs as a cost method investment, as set forth in Note 8.

4. Restricted Cash

A summary of our restricted cash as of December 31, 2018 and 2017 is as follows (amounts in thousands):

	As of December 31,	
	2018	2017
Cash restricted by lender	$ 175,659	$ —
Cash collateral for derivative financial instruments	37,245	26,256
Funds held on behalf of borrowers and tenants	12,838	10,918
Other restricted cash	22,299	11,651
	$ 248,041	$ 48,825

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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. The following tables summarize our investments in mortgages and loans by subordination class as of December 31, 2018 and 2017 (dollars in thousands):

December 31, 2018	Carrying Value	Face Amount	Weighted Average Coupon		Weighted Average Life ("WAL") (years)(1)
First mortgages (2)	$ 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 (3)	52,778	53,996	8.9	%	3.7
Mezzanine loans (2)	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 (loans held-for-investment)	(39,151)	—			
Total net loans	$ 9,794,254	$ 9,876,545			
December 31, 2017					
First mortgages (2)	$ 5,818,804	$ 5,843,623	6.2	%	2.0
Subordinated mortgages (3)	177,115	177,386	10.8	%	1.9
Mezzanine loans (2)	545,299	545,355	11.0	%	1.1
Other	25,607	29,320	8.5	%	3.9
Total loans held-for-investment	6,566,825	6,595,684			
Loans held-for-sale, fair value option, residential	613,287	594,105	6.2	%	5.4
Loans held-for-sale, fair value option, commercial	132,456	132,393	4.6	%	10.0
Loans transferred as secured borrowings	74,403	75,000	6.2	%	2.3
Total gross loans	7,386,971	7,397,182			
Loan loss allowance (loans held-for-investment)	(4,330)	—			
Total net loans	$ 7,382,641	$ 7,397,182			

(1) 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.

(2) 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 $1.0 billion and $851.1 million being classified as first mortgages as of December 31, 2018 and 2017, respectively.

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

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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 results in distributions in excess of basis being recognized within interest income in our consolidated statements of operations.

As of December 31, 2018, approximately $8.1 billion, or 94.0%, of our loans held for-investment were variable rate and paid interest principally at LIBOR plus a weighted average spread of 4.3%.

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

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As of December 31, 2018, the risk ratings for loans subject to our rating system, which excludes loans held-for-sale, by class of loan were as follows (dollars in thousands):

Risk Rating Category	Balance Sheet Classification Loans Held-For-Investment First Mortgages	First Priority Infrastructure Loans	Subordinated Mortgages	Mezzanine Loans	Other	Loans Transferred As Secured Borrowings	Total	% of Total Loans
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) Represents loans individually evaluated for impairment in accordance with ASC 310-10.
(2) First priority infrastructure loans were not risk rated as of December 31, 2018 as the Company is in the process of developing a risk rating policy for these loans.

As of December 31, 2017, the risk ratings for loans subject to our rating system, which excludes loans held-for-sale, by class of loan were as follows (dollars in thousands):

Risk Rating Category	Balance Sheet Classification Loans Held-For-Investment First Mortgages	Subordinated Mortgages	Mezzanine Loans	Other	Loans Transferred As Secured Borrowings	Total	% of Total Loans
1	$ 2,003	$ —	$ —	$ 20,267	$ —	$ 22,270	0.3 %
2	2,462,268	11,927	137,803	—	—	2,611,998	35.4 %
3	3,183,592	165,188	407,496	5,340	74,403	3,836,019	51.9 %
4	120,479	—	—	—	—	120,479	1.6 %
5	50,462	—	—	—	—	50,462	0.7 %
N/A	—	—	—	—	—	—	— %
	$ 5,818,804	$ 177,115	$ 545,299	$ 25,607	$ 74,403	6,641,228	
Loans held-for-sale						745,743	10.1 %
Total gross loans						$ 7,386,971	100.0 %

In accordance with our loan impairment policy, during the year ended December 31, 2018, we recorded impairment charges of $38.2 million. Of such $38.2 million impairment charges, $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, 2018: (i) $110.9 million first mortgage loan ($94.8 million unpaid principal balance and $5.5 million provision for impaired loans); (ii) $48.3 million mezzanine loan ($31.2 million unpaid principal balance and $16.1 million provision for impaired loan); and (iii) $6.2 million unsecured promissory note ($6.5 million unpaid principal balance and zero provision for impaired loan). In making our determinations surrounding impairment, we considered the property's liquidation value, the financial wherewithal of the sponsor, the borrower's competency in managing and operating the project and the overall economic environment.

Impairment charges of $8.3 million recorded during the year ended December 31, 2018 relate to two subordinated mortgages on department stores located in the Greater Chicago area. The sole tenant filed for bankruptcy earlier in the year, and the bankruptcy court ordered liquidation of the retailer during the year ended December 31, 2018. In making the determination that the loans were impaired, we considered the property’s liquidation value and the financial wherewithal of the tenant’s parent company to honor certain guarantees. Our recorded investment in these loans totaled $12.2 million ($12.0 million unpaid principal balance and $8.3 million provision for impaired loan) as of December 31, 2018.

The remaining $8.3 million of impairment charges recorded during the year ended December 31, 2018 relate to a first mortgage loan on a grocery distribution facility located in Montgomery, Alabama that is leased to a single tenant. The tenant filed for bankruptcy earlier in the year with the bankruptcy court subsequently rejecting the lease. The tenant has since vacated the property and ceased making debt service payments. In making our determinations surrounding impairment, we considered the property’s liquidation value and our intent to foreclose. Our recorded investment in the loan totaled $20.7 million ($24.3 million unpaid principal balance net of a $3.6 million unamortized discount) as of December 31, 2018.

We also have a first mortgage loan on a grocery distribution facility in Orlando, Florida that is leased to the same tenant. This lease was similarly rejected by the bankruptcy court with the tenant vacating and ceasing debt service. In making our determinations surrounding impairment, we considered the property’s liquidation value and our intent to foreclose. Because the value of the property exceeds our recorded investment, we determined that no impairment reserve was required. Our recorded investment in the loan totaled $14.1 million ($17.5 million unpaid principal balance net of a $3.4 million unamortized discount) as of December 31, 2018.

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, 2018 was $221.6 million.

During the year ended December 31, 2018, we modified certain loans as TDRs, consisting of the mezzanine loan and unsecured promissory note on the residential conversion project discussed above. In the case of the mezzanine loan, the interest rate was modified to a below market interest rate. In the case of the unsecured promissory note, the maturity date was extended, causing a delay in timing that was not insignificant to the debt’s original contractual maturity. As of December 31, 2018, the mezzanine loan was fully funded and the unsecured promissory note had an unfunded commitment of $5.5 million.

There were no TDRs for which interest income was recognized during the year ended December 31, 2018.

As of December 31, 2018, the department store loans and the first mortgage loan on a grocery distribution facility located in Montgomery, Alabama discussed above were 90 days or greater past due, as were $3.8 million of residential loans. In accordance with our interest income recognition policy, these loans were placed on cost recovery once 90 days or greater past due.

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In accordance with our policies, we record an allowance for loan losses equal to (i) 1.5% of the aggregate carrying amount of loans rated as a "4," plus (ii) 5% of the aggregate carrying amount of loans rated as a "5," plus (iii) 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,		
	2018	2017	2016
Allowance for loan losses at January 1	$ 4,330	$ 9,788	$ 6,029
Provision for (reversal of) loan losses	(3,384)	(5,458)	3,759
Provision for impaired loans	38,205	—	—
Charge-offs	—	—	—
Recoveries	—	—	—
Allowance for loan losses at December 31	$ 39,151	$ 4,330	$ 9,788
Recorded investment in loans related to the allowance for loan loss	$ 275,112	$ 170,941	$ 516,450

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

	For the year ended December 31,		
	2018	2017	2016
Balance at January 1	$ 7,382,641	$ 5,946,274	$ 6,263,517
Acquisition of Infrastructure Lending Portfolio	1,969,340	—	—
Acquisitions/originations/additional funding	6,723,144	5,500,539	4,502,842
Capitalized interest (1)	63,047	74,339	80,992
Basis of loans sold (2)	(3,082,347)	(1,634,717)	(2,266,901)
Loan maturities/principal repayments	(3,272,666)	(2,658,522)	(2,742,462)
Discount accretion/premium amortization	38,099	39,084	48,384
Changes in fair value	40,522	66,987	74,251