Ares Commercial Real Estate Corp
Form 10-Q
August 03, 2017

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 001-35517
ARES COMMERCIAL REAL ESTATE CORPORATION
(Exact name of Registrant as specified in its charter)

Maryland	45-3148087
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

245 Park Avenue, 42nd Floor, New York, NY 10167
(Address of principal executive offices) (Zip Code)

(212) 750-7300
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 ý No o

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

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

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

Emerging growth company x

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 7(a)(2)(B) of the Securities Act. ý

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 2, 2017
Common stock, $0.01 par value	28,582,690

ARES COMMERCIAL REAL ESTATE CORPORATION

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash and cash equivalents ($8 related to consolidated VIEs as of December 31, 2016)	$5,723	$47,270
Restricted cash	379	375
Loans held for investment ($341,158 and $21,514 related to consolidated VIEs, respectively)	1,641,435	1,313,937
Other assets ($857 and $203 of interest receivable related to consolidated VIEs, respectively)	15,033	12,121
Total assets	$1,662,570	$1,373,703
LIABILITIES AND EQUITY		
LIABILITIES		
Secured funding agreements	$809,737	$780,713
Secured term loan	151,112	149,878
Collateralized loan obligation securitization debt (consolidated VIE)	270,759	—
Due to affiliate	2,625	2,699
Dividends payable	7,718	7,406
Other liabilities ($352 of interest payable related to consolidated VIEs as of June 30, 2017)	3,637	3,334
Total liabilities	1,245,588	944,030
Commitments and contingencies (Note 5)		
EQUITY		
Common stock, par value $0.01 per share, 450,000,000 shares authorized at June 30, 2017 and December 31, 2016, and 28,582,690 and 28,482,756 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	283	283
Additional paid-in capital	420,251	420,056
Accumulated deficit	(3,552)	(1,310)
Total stockholders' equity	416,982	419,029
Non-controlling interests in consolidated VIEs	—	10,644
Total equity	416,982	429,673
Total liabilities and equity	$1,662,570	$1,373,703

See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net interest margin:				
Interest income from loans held for investment	$22,643	$ 18,929	$43,770	$ 37,679
Interest expense	(12,232)	(8,415)	(23,020)	(16,940)
Net interest margin	10,411	10,514	20,750	20,739
Expenses:				
Management and incentive fees to affiliate	1,654	1,338	3,466	2,690
Professional fees	428	535	819	1,025
General and administrative expenses	640	686	1,282	1,409
General and administrative expenses reimbursed to affiliate	949	660	1,897	1,557
Total expenses	3,671	3,219	7,464	6,681
Income from continuing operations before income taxes	6,740	7,295	13,286	14,058
Income tax expense, including excise tax	27	3	95	7
Net income from continuing operations	6,713	7,292	13,191	14,051
Net income from operations of discontinued operations, net of income taxes	—	2,689	—	2,355
Net income attributable to ACRE	6,713	9,981	13,191	16,406
Less: Net income attributable to non-controlling interests	—	(1,288)	(25)	(2,577)
Net income attributable to common stockholders	$6,713	$ 8,693	$13,166	$ 13,829
Basic earnings per common share:				
Continuing operations	$0.24	$ 0.21	$0.46	$ 0.40
Discontinued operations	—	0.09	—	0.08
Net income	$0.24	$ 0.31	$0.46	$ 0.49
Diluted earnings per common share:				
Continuing operations	$0.24	$ 0.21	$0.46	$ 0.40
Discontinued operations	—	0.09	—	0.08
Net income	$0.24	$ 0.31	$0.46	$ 0.48
Weighted average number of common shares outstanding:				
Basic weighted average shares of common stock outstanding	28,475,853	28,428,703	28,472,356	28,479,015
Diluted weighted average shares of common stock outstanding	28,546,624	28,495,833	28,514,867	28,548,944
Dividends declared per share of common stock	$0.27	$ 0.26	$0.54	$ 0.52

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
(in thousands, except share and per share data)
(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Non-Controlling Interests	Total Equity
	Shares	Amount					
Balance at December 31, 2016	28,482,756	$ 283	$ 420,056	$ (1,310)	$ 419,029	$ 10,644	$ 429,673
Stock based compensation	99,934	—	195	—	195	—	195
Net income	—	—	—	13,166	13,166	25	13,191
Dividends declared	—	—	—	(15,408)	(15,408)	—	(15,408)
Contributions from non-controlling interests	—	—	—	—	—	12	12
Distributions to non-controlling interests	—	—	—	—	—	(10,681)	(10,681)
Balance at June 30, 2017	28,582,690	$ 283	$ 420,251	$ (3,552)	$ 416,982	$ —	$ 416,982

See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the six months ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
Operating activities:		
Net income	$ 13,191	$ 16,406
Adjustments to reconcile net income to net cash provided by (used in) operating activities (inclusive of amounts related to discontinued operations):		
Amortization of deferred financing costs	3,923	3,150
Change in mortgage banking activities	—	(6,444)
Change in fair value of mortgage servicing rights	—	3,895
Accretion of deferred loan origination fees and costs	(2,640)	(2,013)
Provision for loss sharing	—	(289)
Originations of mortgage loans held for sale	—	(282,625)
Sale of mortgage loans held for sale to third parties	—	261,499
Stock-based compensation	195	269
Depreciation expense	—	112
Deferred tax expense	—	682
Changes in operating assets and liabilities:		
Restricted cash	(4)	1,350
Other assets	(1,702)	39,681
Due to affiliate	(74)	(135)
Other liabilities	151	(2,118)
Net cash provided by (used in) operating activities	13,040	33,420
Investing activities:		
Issuance of and fundings on loans held for investment	(421,833)	(196,108)
Principal repayment of loans held for investment	92,266	229,447
Receipt of origination fees	4,709	610
Purchases of other assets	—	(352)
Net cash provided by (used in) investing activities	(324,858)	33,597
Financing activities:		
Proceeds from secured funding agreements	376,115	438,721
Repayments of secured funding agreements	(347,091)	(359,702)
Payment of secured funding costs	(5,914)	(1,458)
Proceeds from issuance of debt of consolidated VIEs	272,927	—
Repayments of debt of consolidated VIEs	—	(150,281)
Proceeds from warehouse lines of credit	—	332,703
Repayments of warehouse lines of credit	—	(311,078)
Repurchase of common stock	—	(1,436)
Dividends paid	(15,097)	(14,582)
Contributions from non-controlling interests	12	4
Distributions to non-controlling interests	(10,681)	(2,592)
Net cash provided by (used in) financing activities	270,271	(69,701)
Change in cash and cash equivalents	(41,547)	(2,684)
Cash and cash equivalents of continuing operations, beginning of period	47,270	5,066

Cash and cash equivalents of discontinued operations, beginning of period	—	3,929
Cash and cash equivalents, end of period	$5,723	$ 6,311
Cash and cash equivalents of continuing operations, end of period	$5,723	$ 5,309
Cash and cash equivalents of discontinued operations, end of period	$—	$ 1,002

See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of June 30, 2017
(in thousands, except share and per share data, percentages and as otherwise indicated)
(unaudited)

1. ORGANIZATION

Ares Commercial Real Estate Corporation (together with its consolidated subsidiaries, the “Company” or “ACRE”) is a specialty finance company primarily engaged in originating and investing in commercial real estate loans and related investments. Through Ares Commercial Real Estate Management LLC (“ACREM” or the Company’s “Manager”), a Securities and Exchange Commission (“SEC”) registered investment adviser and a subsidiary of Ares Management, L.P. (NYSE: ARES) (“Ares Management”), a publicly traded, leading global alternative asset manager, it has investment professionals strategically located across the United States and Europe who directly source new loan opportunities for the Company with owners, operators and sponsors of commercial real estate (“CRE”) properties. The Company was formed and commenced operations in late 2011. The Company is a Maryland corporation and completed its initial public offering (the “IPO”) in May 2012. The Company is externally managed by its Manager, pursuant to the terms of a management agreement (the “Management Agreement”).

The Company is primarily focused on directly originating and managing a diversified portfolio of CRE debt-related investments for the Company’s own account. The Company’s target investments include senior mortgage loans, subordinated debt, preferred equity, mezzanine loans and other CRE investments, including commercial mortgage backed securities. These investments are generally held for investment and are secured, directly or indirectly, by office, multifamily, retail, industrial, lodging, senior-living, self-storage and other commercial real estate properties, or by ownership interests therein.

On June 28, 2016, the Company entered into a Purchase and Sale Agreement (as amended, the “Agreement”) with Barings Real Estate Advisers LLC (formerly known as Cornerstone Real Estate Advisers LLC), a Delaware limited liability company (the “Buyer”), to sell ACRE Capital Holdings LLC (“TRS Holdings”), the holding company that owned the Company’s mortgage banking subsidiary, ACRE Capital LLC (“ACRE Capital”). Under the terms and subject to the conditions set forth in the Agreement, on September 30, 2016, the Buyer purchased from the Company all of the outstanding common units of TRS Holdings (the “ACRE Capital Sale”). ACRE Capital primarily originated, sold and serviced multifamily and senior-living related loans under programs offered by government-sponsored enterprises and by government agencies. Under the terms of the Agreement, the Buyer paid approximately $93 million in cash as consideration for the ACRE Capital Sale.

The Company has elected and qualified to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its taxable year ended December 31, 2012. The Company generally will not be subject to U.S. federal income taxes on its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, to the extent that it annually distributes all of its REIT taxable income to stockholders and complies with various other requirements as a REIT.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the related management's discussion and analysis of financial condition and results of operations included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC.

Refer to the Company’s Annual Report on Form 10-K for a description of the Company’s recurring accounting policies. The Company has included disclosure below regarding basis of presentation and other accounting policies that (i) are required to be disclosed quarterly or (ii) the Company views as critical as of the date of this report.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with United States generally accepted accounting principles (“GAAP”) and include the accounts of the Company, the consolidated variable interest entities (“VIEs”) that the Company controls and of which the Company is the primary beneficiary, and the Company’s wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the Company’s results of operations and financial condition as of and for the periods presented. All intercompany balances and transactions have been eliminated.

Interim financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The current period’s results of operations will not necessarily be indicative of results that ultimately may be achieved for the year ending December 31, 2017.

Discontinued Operations

As discussed in Note 1 included in these consolidated financial statements, the Company completed the ACRE Capital Sale on September 30, 2016. Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 205-20, Presentation of Financial Statements - Discontinued Operations, defines the criteria required for a disposal transaction to qualify for reporting as a discontinued operation. The Company determined that the ACRE Capital Sale met the criteria for discontinued operations. As a result, the operating results of ACRE Capital, which formerly comprised the Mortgage Banking segment, are presented separately in the Company’s consolidated financial statements as discontinued operations for the three and six months ended June 30, 2016. The operating results of discontinued operations are included in the line item “Net income from operations of discontinued operations, net of income taxes” in the consolidated statements of operations for the three and six months ended June 30, 2016. Summarized financial information for the discontinued Mortgage Banking segment is shown in Note 13 included in these consolidated financial statements.

Variable Interest Entities

The Company evaluates all of its interests in VIEs for consolidation. When the Company’s interests are determined to be variable interests, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. FASB ASC Topic 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. The Company considers its variable interests, as well as any variable interests of its related parties in making this determination. Where both of these factors are present, the Company is deemed to be the primary beneficiary and it consolidates the VIE. Where either one of these factors is not present, the Company is not the primary beneficiary and it does not consolidate the VIE.

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

To assess whether the Company has 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, the Company considers all of its economic interests, including debt and equity investments, servicing fees, and other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company applies 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 the Company.

For VIEs of which the Company is determined to be the primary beneficiary, all of the underlying assets, liabilities, equity, revenue and expenses of the structures are consolidated into the Company’s consolidated financial statements.

The Company performs an ongoing reassessment of: (1) whether any entities previously evaluated under the majority voting interest framework have become VIEs, based on certain events, and therefore are subject to the VIE consolidation framework, and (2) whether changes in the facts and circumstances regarding its involvement with a VIE cause the Company’s consolidation conclusion regarding the VIE to change. See Note 12 included in these consolidated financial statements for further discussion of the Company’s VIEs.

Reclassifications

The Company presents, in discontinued operations, the results of operations that have been disposed of for which the disposition represents a strategic shift that has or will have a significant effect on the Company's operations and financial results. As a result of this presentation, retroactive reclassifications that change prior period numbers have been made. See Notes 1 and 13 included in these consolidated financial statements for further discussion of the sale of the Mortgage Banking segment.

Loans Held for Investment

The Company originates CRE debt and related instruments generally to be held for investment. Loans that are held for investment are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired. Impairment occurs when it is deemed probable that the Company 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, the Company will record an allowance 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.

Each loan classified as held for investment is evaluated for impairment on a quarterly basis. Loans are collateralized by real estate. The extent of any credit deterioration associated with the performance and/or value of the underlying collateral property and the financial and operating capability of the borrower could impact the expected amounts received. The Company monitors performance of its investment portfolio under the following methodology: (1) borrower review, which analyzes the borrower's ability to execute on its original business plan, reviews its financial condition, assesses pending litigation and considers its general level of responsiveness and cooperation; (2) economic review, which considers underlying collateral (i.e. leasing performance, unit sales and cash flow of the collateral and its ability to cover debt service, as well as the residual loan balance at maturity); (3) property review, which considers current environmental risks, changes in insurance costs or coverage, current site visibility, capital expenditures and market perception; and (4) market review, which analyzes the collateral from a supply and demand perspective of similar property types, as well as from a capital markets perspective. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, and the borrower's exit plan, among other factors.

In addition, the Company evaluates the entire portfolio to determine whether the portfolio has any impairment that requires a valuation allowance on the remainder of the loan portfolio. As of June 30, 2017 and December 31, 2016, the Company did not recognize any impairment charges with respect to its loans held for investment.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed against interest income in the period the loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding the borrower's ability to make pending principal and interest payments. Non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management's judgment, are likely to remain current. The Company may make exceptions to placing a loan on non-accrual status if the loan has sufficient collateral value and is in the process of collection.

Preferred equity investments, which are subordinate to any loans but senior to common equity, are accounted for as loans held for investment and are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired, and are included within loans held for investment in the Company's consolidated balance sheets. The Company accretes or amortizes any discounts or premiums over the life of the related loan held for investment utilizing the effective interest method.

Debt Issuance Costs

Debt issuance costs under the Company’s indebtedness are capitalized and amortized over the terms of the respective debt instrument. Debt issuance costs related to debt securitizations are capitalized and amortized over the term of the underlying loans using the effective interest method. When an underlying loan is prepaid in a debt securitization and the outstanding principal balance of the securitization debt is reduced, the related unamortized debt issuance costs are charged to expense based on a pro rata share of the debt issuance costs being allocated to the specific loans that were prepaid. Amortization of debt issuance costs is included within interest expense in the Company’s consolidated statements of operations while the unamortized balance on (i) Secured Funding Agreements (each individually defined in Note 4 included in these consolidated financial statements) are included within other assets and both (ii) the Secured Term Loan (defined in Note 4 included in these consolidated financial statements) and (iii) debt securitizations are included as a reduction to the carrying amount of the liability, in the Company's consolidated balance sheets.

The original issue discount ("OID") on amounts drawn under the Company's Secured Term Loan represents a discount to the face amount of the drawn debt obligations. The OID is amortized over the term of the Secured Term Loan using the effective interest method and is included within interest expense in the Company's consolidated statements of operations while the unamortized balance is a reduction to the carrying amount of the Secured Term Loan in the Company's consolidated balance sheets.

Revenue Recognition

Interest income from loans held for investment is accrued based on the outstanding principal amount and the contractual terms of each loan. For loans held for investment, origination fees, contractual exit fees and direct loan origination costs are also recognized in interest income from loans held for investment over the initial loan term as a yield adjustment using the effective interest method.

A reconciliation of the Company's interest income from loans held for investment, excluding non-controlling interests, to the Company's interest income from loans held for investment as included within its consolidated statements of operations for the three and six months ended June 30, 2017 and 2016 is as follows ($ in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Interest income from loans held for investment, excluding non-controlling interests	$22,643	$17,640	$43,735	$35,101
Interest income from non-controlling interest investment held by third parties	—	1,289	35	2,578
Interest income from loans held for investment	$22,643	$18,929	$43,770	$37,679

Net Interest Margin and Interest Expense

Net interest margin within the consolidated statements of operations serves to measure the performance of the Company's loans held for investment as compared to its use of debt leverage. The Company includes interest income from its loans held for investment and interest expense related to its Secured Funding Agreements, securitizations debt and the Secured Term Loan (individually defined in Note 4 included in these consolidated financial statements) in net interest margin. For the three and six months ended June 30, 2017 and 2016, interest expense is comprised of the following ($ in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Secured funding agreements and securitizations debt	$8,855	$6,657	$16,323	$13,425
Secured term loan	3,377	1,758	6,697	3,515
Interest expense	$12,232	$8,415	$23,020	$16,940

Comprehensive Income

For the three and six months ended June 30, 2017 and 2016, comprehensive income equaled net income; therefore, a separate consolidated statement of comprehensive income is not included in the accompanying consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In March 2016, the FASB issued ASU No. 2016-08, Revenue from

Contracts with Customers (Topic 606): Principal Versus Agent Considerations, which clarifies the guidance in ASU No. 2014-09 and has the same effective date as the original standard. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, an update on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which includes amendments for enhanced clarification of the guidance. In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Revenue from Contracts with Customers (Topic 606), the amendments in this update are of a similar nature to the items typically addressed in the technical corrections and improvements project. Additionally, in February 2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, an update on clarifying that a financial asset is within the scope of Subtopic 610-20 if it is deemed an “in-substance non-financial asset.” The application of this guidance is not expected to have a material impact on the Company’s consolidated financial statements, primarily because the majority of the Company’s revenue is accounted for under FASB ASC Topic 310, Receivables, which is scoped out of this standard.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard will replace the incurred loss impairment methodology pursuant to GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU No. 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, with early adoption permitted after December 15, 2018, including interim periods within that reporting period. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which intends to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU No. 2016-15 provides guidance on eight specific cash flow issues and clarifies that in the absence of specific guidance, an entity should classify each separately identifiable cash source and use on the basis of the nature of the underlying cash flows. For cash flows with aspects of more than one class that cannot be separated, the classification should be based on the activity that is likely to be the predominant source or use of cash flow. ASU No. 2016-15 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force). The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The adoption of this ASU will impact the presentation of the statement of cash flows, as well as require additional footnote disclosure to reconcile the balance sheet to the revised cash flow statement presentation.

3. LOANS HELD FOR INVESTMENT

As of June 30, 2017, the Company’s portfolio totaled 38 loans held for investment, excluding 50 loans that were repaid or sold since inception. The aggregate originated commitment under these loans at closing was approximately $1.8 billion and outstanding principal was $1.7 billion as of June 30, 2017. During the six months ended June 30, 2017, the

Company funded approximately $421.8 million of outstanding principal and received repayments of $81.7 million of outstanding principal, excluding non-controlling interests held by third parties, as described in more detail in the tables below. Such investments are referred to herein as the Company's "investment portfolio." As of June 30, 2017, 89.0% of the Company's loans have London Interbank Offered Rates ("LIBOR") floors, with a weighted average floor of 0.56%, calculated based on loans with LIBOR floors. References to LIBOR or "L" are to 30-day LIBOR (unless otherwise specifically stated).

The Company's investments in loans held for investment are accounted for at amortized cost. The following tables summarize the Company's loans held for investment as of June 30, 2017 and December 31, 2016 ($ in thousands):

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	As of June 30, 2017						
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Minimum Loan Borrowing Spread (2)		Weighted Average Unleveraged Effective Yield (3)		Weighted Average Remaining Life (Years)
Senior mortgage loans	$1,529,155	$1,538,370	4.8	%	6.0	%	1.9
Subordinated debt and preferred equity investments	112,280	113,392	10.7	%	11.8	%	3.2
Total loans held for investment portfolio	$1,641,435	$1,651,762	5.2	%	6.4	%	2.0

	As of December 31, 2016						
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Minimum Loan Borrowing Spread (2)		Weighted Average Unleveraged Effective Yield (3)		Weighted Average Remaining Life (Years)
Senior mortgage loans	$1,181,569	$1,188,425	4.7	%	5.7	%	1.8
Subordinated debt and preferred equity investments	121,828	123,230	10.7	%			