Resource Capital Corp.
Form 10-K
March 03, 2014

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

FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________
Commission File Number: 1-32733
RESOURCE CAPITAL CORP.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No R
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No R
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

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

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the closing price of such stock on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2013) was approximately $741,905,398.

The number of outstanding shares of the registrant’s common stock on February 26, 2014 was 128,420,570 shares.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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PART I

ITEM I . BUSINESS

General

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

Our investments target the following asset classes:

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

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

We are externally managed by Resource Capital Manager, Inc., which we refer to as the Manager, a wholly-owned indirect subsidiary of Resource America, Inc. (NASDAQ: REXI), a specialized asset management company that uses industry specific expertise to evaluate, originate, service and manage investment opportunities through its commercial real estate, financial fund management and commercial finance operating segments. As of September 30, 2013, Resource America managed approximately $16.6 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

During 2012 and 2013, the economic environment continued to be more positive in the United States, which resulted in several positive operating developments for us. Our ability to access the capital markets improved, enabling us to raise $114.5 million through a common stock offering in April 2013, $19.2 million through our dividend reinvestment and share purchase program, or DRIP, in 2013 and $56.8 million through our preferred stock issuances in 2013 as well as $111.1 million through a 6.0% Convertible Senior Notes offering completed in October 2013. The credit quality of our investments improved, resulting in substantial decreases in 2013 in our aggregate provision for loan losses and asset impairments (to $3.9 million in 2013 from $16.8 million in 2012), and a substantial improvement in other comprehensive income with respect to our available-for-sale portfolio and interest rate derivatives (to $14.0 million in 2013 from $27.1 million in 2012), which we attribute principally to an improving recovery in financial markets as well as expired derivatives contracts. The improved economic environment and increased capital markets access allowed us to substantially increase our originations of commercial real estate whole loans from $163.4 million in 2012 to $344.3 million in 2013.

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We also continued to experience improved securitization markets, closing our first new real estate securitization since June 2007 with a $307.8 million CLO in December 2013. We were able to use the proceeds from the CLO to substantially pay down a financing facility and thereby generate additional borrowing capacity. Additionally, we were able to extend the terms of CMBS and CRE financing facilities to January 2015 and February 2015 with additional options to extend at our discretion. Furthermore, in 2013 we added a new $200.0 million facility to finance CRE loan originations, which we have not yet accessed.

Conversely, we also saw a decline in our commercial finance assets, specifically, our bank loan portfolio, as two of our CLOs were liquidated in 2013 and two of our other CLOs have finished their reinvestment period and, as a result, as the collateral assets repay the proceeds are used to pay down the associated debt. This trend has seen our net interest income from bank loans decline substantially in 2013. We expect to mitigate this trend by deploying capital into our middle-market lending business, which loans are similar in nature to bank loans, and in our growing commercial real estate lending platform. Based on these recent and expected investment trends and credit market events, we expect to be able to invest a significant portion of our unrestricted and available restricted cash balances and, as a result, grow our net interest income and other revenues modestly in 2014.

Our Business Strategy

The core components of our business strategy are:

Investment in real estate and commercial finance assets. We expect to seek portfolio growth primarily through investments in CRE whole loans, and to a lesser extent, B notes, mezzanine debt and CMBS rated below AAA by Standard & Poor's, or S&P. We also expect to invest in commercial finance assets, including bank loans, and directly-originated middle-market loans, and to a lesser extent, other ABS, structured note investments and debt tranches of CDOs and CLOs, subject to the availability of investment funds and financing. Our equity at December 2013 was invested 83% in CRE loans, 15% in commercial bank loans, and 2% in other investments.

Managing our investment portfolio. As of December 31, 2013, we managed $2.2 billion of assets, including $2.0 billion of assets financed and held in CDOs. The core of our management process is credit analysis which we use to actively monitor our existing investments and as a basis for evaluating new investments. Senior management of our Manager and Resource America has extensive experience in underwriting the credit risk associated with our targeted asset classes and conducts detailed due diligence on all credit-sensitive investments, including the use of proprietary credit stratifications and collateral stress analysis. After we make an investment, the Manager and Resource America engage in active monitoring of our investments for early detection of troubled and deteriorating assets. If a default occurs, we will use our senior management team's asset management experience in seeking to mitigate the severity of any losses, and to optimize the recovery from assets if we foreclose upon them.

Managing our interest rate and liquidity risk. We generally seek to manage interest rate and liquidity risk so as to reduce the effects of interest rate changes on us. In our long-term financing, we seek to match the maturity and repricing dates of our investments with the maturities and repricing dates of our financing. Historically, we have used CDO vehicles structured for us by our Manager to achieve this goal, and as credit markets have reopened, we expect to increase our use of CDO vehicles over that of the past four years to provide us with new financing. We also seek to mitigate interest rate risk through the use of derivative instruments, principally interest rate swaps and interest rate caps.

We manage our interest rate and liquidity risk on our short-term financing, principally repurchase agreements, by limiting the amount of our financial exposure under the facilities to either a stated investment amount or a fixed guaranty amount. At December 31, 2013 with respect to our existing Wells Fargo CMBS facility, we had $54.1 million of short-term debt and $7.0 million of derivative instruments and pledged collateral of $65.3 million associated with this debt, and equity at risk of $12.6 million, including net interest due on the financings. With respect to our new Wells Fargo CRE facility, after paying down the facility with proceeds from our new CRE securitization, we had a balance of $30.7 million of short-term debt at year end 2013 and pledged collateral of $48.2 million associated with this debt and equity at risk of $20.7 million, including net interest due. We also had a balance of $57.6 million on short-term 30 day repurchase agreements with various counterparties to finance the purchase of CMBS with pledged collateral of $85.5 million associated with this debt and equity at risk of $28.2 million, including net interest as of December 31, 2013. These borrowings were made on a floating rate basis, which matched the underlying asset collateral on the same floating rate basis, which inherently mitigates interest rate risk on these financed investments.

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

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Our Operating Policies

Investment guidelines. We have established investment policies, procedures and guidelines that are reviewed and approved by our investment committee and board of directors. The investment committee meets regularly to monitor the execution of our investment strategies and our progress in achieving our investment objectives. As a result of our investment strategies and targeted asset classes, we acquire our investments primarily for income. We do not have a policy that requires us to focus our investments in one or more particular geographic areas.

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

We have historically used borrowing and securitization strategies, substantially through CDOs, to accomplish our long-term match funding financing strategy. As we saw an improvement in the credit markets in 2013, we expect to increase leverage through new securitizations such as CLOs and our two Wells Fargo facilities, and to use other credit arrangements that may be available to us to finance new investments where we believe we can achieve attractive risk-adjusted returns.

Hedging and interest rate management policies. We use derivative financial instruments to hedge a portion of the interest rate risk associated with our borrowings. Under the federal income tax laws applicable to REITs, we generally will be able to enter into transactions to hedge indebtedness that we may incur, or plan to incur, to acquire or carry real estate assets, provided that our total gross income from such hedges and other non-qualifying sources does not exceed 25% of our total gross income. These hedging transactions may include interest rate swaps, collars, caps or floors, puts, calls, options and foreign currency exchange protection.

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

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Our Investment Strategy

General

The following table describes our investment class allocations and certain characteristics of each class as of December 31, 2013 (dollars in thousands):

	Amortized cost	Estimated fair value [1]	Percent of portfolio		Weighted average coupon
Loans held for investment:					
Commercial real estate loans:					
Whole loans	$745,789	$746,440	42.01	%	5.47%
Mezzanine loans	64,317	50,611	2.85	%	6.70%
B notes	16,205	16,031	0.90	%	8.68%
Bank loans	544,923	541,532	30.48	%	4.07%
Middle-market loans	10,250	10,250	0.58	%	10.00%
Residential mortgage loans	1,849	1,849	0.10	%	4.19%
Loans receivable-related party	6,966	6,966	0.39	%	9.40%
	1,390,299	1,373,679	77.31	%	
Loans held for sale:					
Bank loans	6,850	6,850	0.39	%	6.43%
Residential mortgage loans	15,066	15,066	0.85	%	4.19%
	21,916	21,916	1.24	%	
Investments in available-for-sale securities:					
CMBS-private placement	185,178	180,718	10.17	%	4.89%
CMBS-linked transactions	35,736	30,066	1.69	%	3.93%
ABS [2]	25,406	26,656	1.50	%	2.1%
Corporate bonds	2,517	2,463	0.14	%	8.05%
	248,837	239,903	13.50	%	
Investment securities,trading:					
Structured notes	8,057	11,107	0.63	%	N/A [3]
RMBS	1,919	451	0.03	%	N/A [3]
	9,976	11,558	0.66	%	
Other (non-interest bearing):					
Property available for sale	25,230	25,230	1.42	%	N/A
Investment in real estate	29,894	29,894	1.68	%	N/A
Investment in unconsolidated entities	74,438	74,438	4.19	%	N/A
	129,562	129,562	7.29	%	
Total portfolio/weighted average	$1,800,590	$1,776,618	100.00	%	

(1) The fair value of our investments represents our management's estimate of the price that a market participant would pay for such assets. Management bases this estimate on the underlying interest rates and credit spreads for fixed-rate securities and, to the extent available, quoted market prices.

(2) ABS includes both ABS and Other ABS investments. The fair value of the ABS includes $0 and $23,000 fair value for Other ABS at December 31, 2013 and 2012, respectively.

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

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Commercial Real Estate-Related Investments

Whole loans. We originate predominantly first mortgage loans, or whole loans, directly to borrowers. The direct origination of whole loans enables us to better control the structure of the loans and to maintain direct lending relationships with the borrowers. We may create senior tranches of a loan we originate, consisting of an A note (described below), B notes (described below), mezzanine loans or other participations, which we may hold or sell to third parties. We do not obtain ratings on these investments. With respect to our portfolio at December 31, 2013, our whole loan investments have loan to value, or LTV, ratios not exceeding 80%. Typically whole loan mortgages will have terms of three years to five years, and are generally structured with an original term of up to three years, with one-year extensions that bring the loan to a maximum term of five years. We expect to hold our whole loans to their maturity.

Senior interests in whole loans (A notes). We invest in senior interests in whole mortgage loans, referred to as A notes, either directly originated or purchased from third parties. We do not obtain ratings on these investments. With respect to our portfolio at December 31, 2013, at the date of investment, our A note investments had LTV ratios not exceeding 70%. We expect to hold our A note investments to their maturity.

Subordinate interests in whole loans (B notes). To a lesser extent we invest in subordinate interests in whole loans, referred to as B notes, which we either directly originate or purchase from third parties. B notes are loans secured by a first mortgage but are subordinated to an A note. The subordination of a B note is generally evidenced by an intercreditor or participation agreement between the holders of the A note and the B note. In some instances, the B note lender may require a security interest in the stock or partnership interests of the borrower as part of the transaction. B note lenders have the same obligations, collateral and borrower as the A note lender, but typically are subordinated in recovery upon a default to the A note lender. B notes share certain credit characteristics with second mortgages in that both are subject to greater credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or A note. We do not obtain ratings on these investments. With respect to our portfolio at December 31, 2013, at origination, our B note investments had LTV ratios between 55% and 80%. Typical B note investments will have terms of three years to five years, and are generally structured with an original term of up to three years, with one-year extensions that bring the loan to a maximum term of five years. We expect to hold our B note investments to their maturity.

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

Mezzanine financing. To a lesser extent we invest in mezzanine loans that are senior to the borrower's equity in, and subordinate to a first mortgage loan on, a property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees of the principals of the borrower, or collateral unrelated to the property. We may structure our mezzanine loans so that we receive a stated fixed or variable interest rate on the loan as well as a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan, payable upon maturity, refinancing or sale of the property. Our mezzanine loans may also have prepayment lockouts, penalties, minimum profit hurdles and other mechanisms to protect and enhance returns in the event of premature repayment. With respect to our portfolio at December 31, 2013, at origination, our mezzanine investments had LTV ratios between 65% and 90%. We expect the stated maturity of our mezzanine financings to range from three to five years. Mezzanine loans may have maturities that match the maturity of the related mortgage loans but may have shorter or longer terms. We expect to hold these investments to maturity.

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The following charts describe the loan type, property type and the geographic breakdown of our CRE loan portfolio as of December 31, 2013 (based on par value):
Loan Type
Property Type

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Geographic Area by State

As these charts demonstrate, our portfolio contains a diversified mix of property types with approximately 91% of the portfolio focusing on four types: multifamily–38%, retail–19%, hotel–18% and office–16%.

Approximately 39% of our portfolio is in California, which we split into Southern (29%) and Northern (10%) regions. Within the Southern California region, we have 93% of our portfolio in whole loans with 80% in four property types: hotel–29%, multifamily–19%, retail–19% and office–13%. Within the Northern California region, we have 100% of our portfolio in whole loans with 88% in two property types: office–47% and retail–41%. We also hold 15% of our portfolio in Texas. Within the state of Texas, we have 95% of our portfolio in whole loans with 89% in two property types: multifamily-79% and mixed use-10%. As noted in these statistics, this portfolio is made up primarily of whole loans where we are able to better control the structure of the loan and maintain a direct lending relationship with the borrower. We view the investment and credit strategy as being adequately diversified across property type and loan type across both the Southern and Northern California regions.

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

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

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Commercial Real Estate Investments

In 2011, we began to invest directly in the ownership of commercial real estate as we restructured two real estate loans to take control of properties where we believed we could protect capital and ultimately generate capital appreciation. We also acquired two multi-family real estate assets, one through a joint venture and another as wholly-owned by us. We sold the wholly-owned multi-family property at a substantial gain of $16.6 million in 2013 and may divest other real estate properties with capital appreciation in 2014. We primarily use a related party, Resource Real Estate, a subsidiary of Resource America, to manage these assets on our behalf.

Other Real Estate Investments

We invest in joint ventures and other interests that finance the acquisition of distressed commercial properties and mortgage loans on distressed commercial properties. These investments have the objective of repositioning the directly owned properties and the collateral underlying the mortgages, where applicable, to enhance their value and realize capital appreciation. During 2013, these investments did not constitute a material portion of our assets. Our investment is included in investments in unconsolidated subsidiaries at December 31, 2013 on our consolidated balance sheet.

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

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

Residential Mortgage Origination

Primary Capital Mortgage, or PCM, is a residential mortgage lender and servicer offering home loans in 17 states through Retail, Wholesale and Correspondent channels. Founded in 1994, PCM has funded more than $7.0 billion in residential mortgages. As of December 31, 2013, PCM serviced over $400.0 million of residential mortgage loans. During 2014, PCM expects to expand geographically and develop non-agency mortgage products.

Commercial Finance Investments

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

Bank loans. We acquire senior and subordinated, secured and unsecured loans made by banks or other financial entities. Bank loans may also include revolving credit facilities, under which the lender is obligated to advance funds to the borrower under the credit facility as requested by the borrower from time to time. Some of these loans may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the loan. These loans may include restrictive financial and operating covenants. The following chart describes the industry breakdown of our bank loans as of December 31, 2013 (based on par value):

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Bank Loans by Industry

Other is made up of the following industries (by percentage):		
Hotels, Motels, Inns, and Gaming	2	%
Buildings and Real Estate	2	%
Diversified/Conglomerate Manufacturing	2	%
Mining, Steel, Iron and Non-Precious Metals	2	%
Utilities	1	%
Insurance	1	%
Cargo Transport	1	%
Printing and Publishing	1	%
Beverage, Food and Tobacco	1	%
Containers, Packaging and Glass	1	%
Banking, Finance, Insurance & Real Estate	1	%
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	1	%
Personal and Non Durable Consumer Products (Mfg. Only)	1	%
Grocery	1	%
Home and Office Furnishings, Housewares, and Durable Consumer Products	1	%

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Middle market loans. We make both senior and subordinated, secured and unsecured loans to middle market companies. Loans may also include revolving credit facilities, under which the lender is obligated to advance funds to the borrower under the credit facility as requested by the borrower from time to time. We expect that most of these loans will be secured by liens on the assets and, to a lesser extent, by mortgages of the borrowers. Certain of these loans may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the loan. These loans may include restrictive financial and operating covenants. In conjunction with some loans, we may also make minority equity investments.

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

Trust preferred securities and other ABS. We have one investment (less than 0.1% of our total assets) in trust preferred securities. Trust preferred securities are issued by a special purpose trust that holds a subordinated debenture or other debt obligation issued by a company to the trust. The sponsoring company holds the equity interest in the trust, with the preferred securities of the trust being sold to investors. The trust invests the proceeds of the preferred securities in the sponsoring company through the purchase of a debenture issued by it that tracks the terms of the trust preferred securities. Issuers of trust preferred securities have been generally affiliated with financial institutions because, under then-existing regulatory and tax structures, unlike the proceeds from debt securities, the proceeds from trust preferred securities could be treated as primary regulatory capital by the financial institution, while it could deduct the interest if paid on the debt obligation held by the trust from its income for federal income tax purposes. With certain exceptions relating to smaller banking institutions, the Dodd-Frank Act provided for a phase out of the use of trust preferred securities as primary regulatory capital which has resulted in a lack of new issuances. Accordingly, we do not expect to make trust preferred securities investments in the future.

Competition

See Item 1A “Risk Factors - Risks Relating to Our Business.”

Management Agreement

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

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

of the independent directors in the case of non-recurring or unusual transactions or events.

- Reimbursement of out-of-pocket expenses and certain other costs incurred by the Manager that relate directly to us and our operations.

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- Reimbursement of the Manager for the expense of the wages, salaries and benefits of our Chairman, our Chief Financial Officer and several accounting professionals and 50% of the salary and benefits of the director of investor relations.

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

Incentive compensation is paid quarterly to the Manager to the extent it is earned. Up to seventy-five percent (75%) of the incentive compensation will be paid in cash and at least twenty-five percent (25%) is paid in the form of a stock award. The Manager may elect to receive more than 25% of its incentive compensation in stock. All shares are fully vested upon issuance. However, the Manager may not sell such shares for one year after the incentive compensation becomes due and payable unless the management agreement is terminated. Shares payable as incentive compensation are valued as follows:

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

As amended, the management agreement has a current term ending on March 31, 2014. The agreement provides for automatic one year renewals on each March 31 thereafter until terminated. Our board of directors reviews the Manager's performance annually. The management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the management fees payable to the Manager are not fair, subject to the Manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees. Our board of directors must provide 180 days' prior notice of any such termination. If we terminate the management agreement, the Manager is entitled to a termination fee equal to four times the sum of the average annual base management fee and the average annual incentive compensation earned by the Manager during the two 12-month periods immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

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

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

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

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

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

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

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We believe that RCC Real Estate, Inc., the subsidiary that as of December 31, 2013 held all of our commercial real estate loan assets, is excluded from Investment Company Act regulation under Sections 3(c)(5)(C) and 3(c)(6), provisions designed for companies that do not issue redeemable securities and are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. To qualify for this exclusion, at least 55% of RCC Real Estate's assets must consist of mortgage loans and other assets that are considered the functional equivalent of mortgage loans for purposes of the Investment Company Act, and interests in real properties, which we refer to as “qualifying real estate assets.” Moreover, 80% of RCC Real Estate's assets must consist of qualifying real estate assets and other real estate-related assets. RCC Real Estate has not issued, and does not intend to issue, redeemable securities.

We treat our investments in whole mortgage loans, specific types of B notes and specific types of mezzanine loans as qualifying real estate assets for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C) to the extent such treatment is consistent with guidance provided by the Securities and Exchange Commission, or SEC, or its staff. We believe that SEC staff guidance allows us to treat B notes as qualifying real estate assets where we have unilateral rights to instruct the servicer to foreclose upon a defaulted mortgage loan, replace the servicer in the event the servicer, in its discretion, elects not to foreclose on such a loan, and purchase the A note in the event of a default on the mortgage loan. We believe, based upon an analysis of existing SEC staff guidance, that we may treat mezzanine loans as qualifying real estate assets where (i) the borrower is a special purpose bankruptcy-remote entity whose sole purpose is to hold all of the ownership interests in another special purpose entity that owns commercial real property, (ii) both entities are organized as limited liability companies or limited partnerships, (iii) under their organizational documents and the loan documents, neither entity may engage in any other business, (iv) the ownership interests of either entity have no value apart from the underlying real property which is essentially the only asset held by the property-owning entity, (v) the value of the underlying property in excess of the amount of senior obligations is in excess of the amount of the mezzanine loan, (vi) the borrower pledges its entire interest in the property-owning entity to the lender which obtains a perfected security interest in the collateral, and (vii) the relative rights and priorities between the mezzanine lender and the senior lenders with respect to claims on the underlying property is set forth in an intercreditor agreement between the parties which gives the mezzanine lender certain cure and purchase rights in case there is a default on the senior loan. If the SEC staff provides future guidance that these investments are not qualifying real estate assets, we will treat them, for purposes of determining our eligibility for the exclusion provided by Section 3(c)(5)(C), as real estate-related assets or miscellaneous assets, as appropriate. Historically, we have held “whole pool certificates” in mortgage loans, although, at December 31, 2013 and 2012, we had no whole pool certificates in our portfolios. Pursuant to existing SEC staff guidance, we consider whole pool certificates to be qualifying real estate assets. A whole pool certificate is a certificate that represents the entire beneficial interest in an underlying pool of mortgage loans. By contrast, a certificate that represents less than the entire beneficial interest in the underlying mortgage loans is not considered to be a qualifying real estate asset for purposes of the 55% test, but constitutes a real estate-related asset for purposes of the 80% test. We do not expect that investments in CDOs, ABS, bank loans, lease receivables, trust preferred securities and private equity will constitute qualifying real estate assets. Moreover, to the extent that these investments are not backed by mortgage loans or other interests in real estate, they will not constitute real estate-related assets. Instead, they will constitute miscellaneous assets, which can constitute no more than 20% of RCC Real Estate's assets.

To the extent RCC Real Estate holds its commercial real estate loan assets through wholly or majority-owned CDO subsidiaries, RCC Real Estate also intends to conduct its operations so that it will not come within the definition of an investment company set forth in Section 3(a)(1)(C) of the Investment Company Act because less than 40% of the value of its total assets (exclusive of government securities and cash items) on an unconsolidated basis will consist of “investment securities,” which we refer to as the 40% test. “Investment securities” exclude U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. Certain of the wholly-owned CDO subsidiaries of RCC Real Estate rely on Section 3(c)(5)(C) for their Investment Company Act exemption, with the result that RCC Real Estate's interests in the CDO subsidiaries do not constitute “investment securities” for the purpose of the 40% test.

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

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Moreover, we must ensure that Resource Capital Corp. itself qualifies for an exclusion from regulation under the Investment Company Act. We will do so by monitoring the value of our interests in our subsidiaries so that we can ensure that Resource Capital Corp. meets the 40% test. Our interest in RCC Real Estate does not constitute an "investment security" for purposes of the 40% test, but our interests in RCC Commercial, RCC Commercial II, Resource TRS, and Resource TRS III, LTCC and PCA do. Accordingly, we must monitor the value of our interest in these subsidiaries to ensure that the value of our interests in them never exceeds 40% of the value of our total assets. We have not received, nor have we sought, a no-action letter from the SEC regarding how our investment strategy fits within the exclusions from regulation under the Investment Company Act. To the extent that the SEC provides more specific or different guidance regarding the treatment of assets as qualifying real estate assets or real estate-related assets, we may have to adjust our investment strategy. Any additional guidance from the SEC could further inhibit our ability to pursue our investment strategy.

Employees

We have no direct employees, except for 83 employees who work for PCA, our recently acquired residential mortgage origination company. Under our management agreement, the Manager provides us with all management and support personnel and services necessary for our day-to-day operations, except for PCA's operations. To provide its services, the Manager draws upon the expertise and experience of Resource America. In April 2012, Resource America and its affiliated entities including (with respect to managing our bank loans and related CLO portfolios) a joint venture, CVC Credit Partners, in which Resource America has retained a 33% partnership interest. As of December 31, 2013, Resource America had 655 employees involved in asset management, including 63 asset management professionals and 592 support personnel. Under our management agreement, the Manager also must provide us with our Chairman, our Chief Financial Officer and several accounting professionals, each of whom is exclusively dedicated to our operations, as well as a director of investor relations who is 50% dedicated to our operations. We bear the expense of the wages, salaries and benefits of our Chairman, our Chief Financial Officer and the accounting professionals dedicated to us, and 50% of the salary and benefits of the director of investor relations.

Corporate Governance and Internet Address

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

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

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ITEM IA. RISK FACTORS

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

Impact of Current Economic Conditions

Weak economic conditions in the United States and other countries may adversely affect our financial condition and results of operations.

Although economic and market conditions in the United States during 2012 and 2013 improved over those of the previous four years, there are still significant problems in the national and global economic and credit markets, while improved, still are still subject to limitations. Also, while real estate markets in the United States have stabilized and, in some cases, improved, overall they are far from robust, which may cause additional declines in the value of same real estate and real estate related assets, impairment of the ability of some borrowers to repay their obligations and limited liquidity in the markets for real estate and real estate-related assets. Since mid-2007 and through the end of fiscal 2013, economic and credit market conditions have had significant adverse effects on us, causing us to record material impairment charges with respect to investments we hold and significant increases in our provision for loan losses. Moreover, until recently, these conditions have made it difficult and, until 2011, virtually impossible, for us to access new financing to support investment growth. As a result, our net income and net income per share have been volatile. Failure of economic and financial market conditions to continue to improve could adversely affect our ability to achieve our investment objectives, ability to make distributions to our stockholders and the price of our common stock.

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

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

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

We depend upon the availability of adequate debt and equity capital for growth in our operations. Although we have been able to raise both debt and equity capital during 2012 and 2013, if current economic conditions were to deteriorate, our ability to access debt or equity capital on acceptable terms, or at all, could be limited which could limit our profitability, our ability to make distributions and the market price of our common stock. In addition, as a REIT, we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and are therefore not able to retain significant amounts of our earnings for new investments. While we may, through our taxable REIT subsidiaries, or TRSs, retain earnings as new capital, we are subject to REIT qualification requirements which limit the value of TRS stock and securities relative to the other assets owned by a REIT.

Risks Related to Our Financing

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

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

- the cash provided by our operating activities will not be sufficient to meet required payments of principal and interest,
- the cost of financing may increase relative to the income from the assets financed, reducing the income we have available to pay distributions, and

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- our investments may have maturities that differ from the maturities of the related financing and, consequently, the risk that the terms of any refinancing we obtain will not be as favorable as the terms of existing financing.

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

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

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

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

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

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

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

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

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

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

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

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

Our equity holdings and, when we acquire debt interests in CDOs, our debt interests, if any, generally are subordinate in right of payment to the other classes of debt securities issued by the CDO entity. Accordingly, if overcollateralization tests are not met, distributions on the subordinated debt and equity we hold in these CDOs will cease, resulting in a substantial reduction in our cash flow. Other tests (based on delinquency levels, interest coverage or other criteria) may restrict our ability to receive cash distributions from assets collateralizing the securities issued by the CDO entity. Although at December 31, 2013, all of our CDOs met their performance tests, we cannot assure you that our CDOs will satisfy the performance tests in the future. For information concerning compliance by our CDOs with their over-collateralization tests, see “Management's Discussion and Analysis of Financial Condition and Results of Operation - Summary of CDO and CLO Performance Statistics.”

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

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

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

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

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

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- If we accumulate assets for a CDO or CLO on a short-term credit facility and do not complete the CDO financing, or if a default occurs under the facility, the short-term lender will sell the assets and we would be responsible for the amount by which the original purchase price of the assets exceeds their sale price, up to the amount of our investment or guaranty.
- An event of default under one short-term facility may constitute a default under other credit facilities we may have, potentially resulting in asset sales and losses to us, as well as increasing our financing costs or reducing the amount of investable funds available to us.
- We may be unable to acquire a sufficient amount of eligible assets to maximize the efficiency of a CDO or CLO issuance, which would require us to seek other forms of term financing or liquidate the assets. We may not be able to obtain term financing on acceptable terms, or at all, and liquidation of the assets may be at prices less than those we paid, resulting in losses to us.
- Using short-term financing to accumulate assets for a CDO or CLO issuance may require us to obtain new financing as the short-term financing matures. Residual financing may not be available on acceptable terms, or at all. Moreover, an increase in short-term interest rates at the time that we seek to enter into new borrowings would reduce the spread between the income on our assets and the cost of our borrowings. This would reduce returns on our assets, which would reduce earnings and, in turn, cash available for distribution to our stockholders.
- We will lose money on our repurchase transactions if the counterparty to the transaction defaults on its obligation to resell the underlying security back to us at the end of the transaction term, or if the value of the underlying security has declined as of the end of the term or if we default on our obligations under the repurchase agreements.

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2013, approximately 95% of our outstanding hedges, with a notional amount of $122.5 million, were with Credit Suisse International, or CS. Were CS to default in its obligations under these hedging arrangements, we would lose the hedge protection for which we had contracted which, depending upon market conditions, could result in significant losses to us. We cannot assure you that we could replace the defaulted hedges or that the terms of any replacement hedges we could obtain would be on similar terms, or as to the cost to us of obtaining replacement hedges.

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Risks Related to Our Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PCA primarily operates in the residential mortgage markets. The contraction of the U.S. housing market and overall economy, the tightening of credit restrictions, the availability of warehouse line of credit borrowings, and government regulations may negatively impact the future operations of PCA. PCA is subject to various lending warehouse line of credit agreements that expire at various times. PCA is dependent upon the renewal of the warehouse lines of credit and continued access to permanent investors to continue to originate and sell residential mortgage loans at its current loan volume. Additionally, because of underwriting and other issues, permanent investors have been more aggressive pursuing indemnification or repurchase from loan originators, which may have a negative impact on PCA and its related cash needs.

If our allowance for loan losses is not adequate to cover actual or estimated future loan and lease losses, our earnings may decline.

We maintain an allowance for loan losses to provide for loan defaults and non-performance by borrowers of their obligations. Our allowance for loan losses may not be adequate to cover actual or estimated future loan losses and future provisions for loan losses could materially reduce our income. We base our allowance for loan losses on prior experience, as well as an evaluation of risks in the current portfolio. However, losses may exceed our current estimates. The amount of future losses is susceptible to changes in economic, operating and other conditions that may be beyond our control, including changes in interest rates, changes in borrowers' creditworthiness and the value of collateral securing loans. Additionally, if we seek to expand our loan portfolios, we may need to make additional provisions for loan losses to ensure that the allowance remains at levels deemed appropriate by our management for the size and quality of our portfolios. While we believe that our allowance for loan and lease losses is adequate to cover our anticipated losses, we cannot assure you that it will not increase in the future. Any increase in our allowance for loan losses will reduce our income and, if sufficiently large, could cause us to incur loss.

Our due diligence may not reveal all of an investment's weaknesses.

Before investing in any asset, we will assess the strength and skills of the asset's management and operations, the value of the asset and, for debt investments, the value of any collateral securing the debt, the ability of the asset or underlying collateral to service the debt and other factors that we believe are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, we will rely on the resources available to us and, in some cases, an investigation by third parties. This process is particularly important and subjective with respect to investments in newly-organized entities because there may be little or no information publicly available about the entities or, with respect to debt securities, any underlying collateral. Our due diligence processes, however, may not uncover all facts that may be relevant to an investment decision.

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Risks Related to Our Investments

Declines in the market values of our investments may reduce periodic reported results, credit availability and our ability to make distributions.

We classify a substantial portion of our assets for accounting purposes as "available-for-sale." As a result, reductions in the market values of those assets are directly charged or credited to accumulated other comprehensive loss and could reduce our stockholders' equity. A decline in these values will reduce the book value of our assets. Moreover, if the decline in value of an available-for-sale asset is other than temporary, we are required by GAAP to record the decline as an asset impairment which will reduce our earnings.

A decline in the market value of our assets may also adversely affect us in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan. If we were unable to post the additional collateral, we would have to repay some portion or all of the loan, which may require us to sell assets, which could potentially be under adverse market conditions. As a result, our earnings would be reduced or we could sustain losses, and cash available to make distributions could be reduced or eliminated.

Increases in interest rates and other factors could reduce the value of our investments, result in reduced earnings or losses and reduce our ability to pay distributions.

A significant risk associated with our investment in commercial real estate-related loans, CMBS and other debt instruments is the risk that either or both of long-term and short-term interest rates increase significantly. If long-term rates increase, the market value of our assets would decline. Even if assets underlying investments we may own in the future are guaranteed by one or more persons, including government or government-sponsored agencies, those guarantees do not protect against declines in market value of the related assets caused by interest rate changes. At the same time, with respect to assets that are not match-funded or that have been acquired with variable rate or short-term financing, an increase in short-term interest rates would increase our interest expense, reducing our net interest spread or possibly result in negative cash flow from those assets. This could result in reduced profitability and distributions or losses.

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

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

Our investment in LEAF Commercial Capital, Inc., or LCC, has resulted in our undertaking a material contingent liability and, because we are required to include our proportionate share of (loss) income in our income, has reduced our reported net income.

We historically have invested in small- and middle-ticket lease receivables. As a result of our investment in LCC, (including the contribution of all of our lease receivables to it), we currently do not directly invest in lease receivables. However, in connection with our investment in LCC, we and Resource America agreed that, to the extent that the value of the equity on the balance sheet of LEAF Receivables Funding 3, an entity whose securities we contributed to LCC in exchange for a portion of our investment, is less than $18.7 million as of the final testing date (a date within 90 days of December 31, 2013), we and Resource America will be jointly and severally obligated to contribute cash to LCC to make up the deficit. The LEAF Receivables Funding 3 equity as of December 31, 2013 was in excess of the commitment. Also in connection with our investment in LCC, we are required under GAAP to include our proportionate share of the loss (income) of LCC in our income. Since LCC has incurred losses of $3.4 million through December 31, 2013, the effect of our investment in LCC has been to reduce our reported net income. We cannot predict whether or when LCC will be become profitable.

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

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

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

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

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

Subject to maintaining our qualification as a REIT and exclusion from regulation under the Investment Company Act, we invest in bank loans and ABS. Our bank loan investments or our ABS investments, which are principally backed by small business and bank loans, may not be secured by mortgages or other liens on assets or may involve higher loan-to-value ratios than our real estate-related investments. Our bank loan investments, and our ABS backed by loans, involve loans with a par amount of $580.0 million at December 31, 2013 that have an interest-only payment schedule or a schedule that does not fully amortize principal over the term of the loan, which will make repayment of loans depend upon the borrowers' liquidity or ability to refinance the loans at maturity. Numerous factors affect a borrower's ability to repay or refinance loans at maturity, including national and local economic conditions, a downturn in a borrower's industry, loss of one or more principal customers and conditions in the credit markets. A deterioration in a company's financial condition or prospects may be accompanied by a deterioration in the collateral for the bank loan or any ABS backed by such company's loans.

We may face competition for suitable investments.

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

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

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

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

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

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Risks Related to Our Manager

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

Apart from 83 persons employed by PCA, our newly-acquired residential mortgage subsidiary, we have no employees. Our officers, portfolio managers, administrative personnel and support personnel are employees of Resource America. We have no separate facilities and, except for PCA's operations, completely rely on the Manager and, because the Manager has no direct employees, Resource America, which has significant discretion as to the implementation of our operating policies and investment strategies. If our management agreement terminates, we may be unable to find a suitable replacement for the Manager. Moreover, we believe that our success depends to a significant extent upon the experience of the portfolio managers and officers of the Manager and Resource America who provide services to us, whose continued service is not guaranteed. The departure of any such persons could harm our investment performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

We have established procedures and policies regarding review, approval and ratification of transactions which may give rise to a conflict of interest between us and persons affiliated or associated with the Manager. In the ordinary course of our business, we have ongoing relationships and have engaged in transactions with entities affiliated or associated with the Manager. Our procedures may not be sufficient to address any conflicts of interest that arise.

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

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

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

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

Risks Related to Real Estate Investments

Our real estate debt investments will be subject to the risks inherent in the real estate securing or underlying those investments which could result in losses to us.

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

- tenant mix, success of tenant businesses, tenant bankruptcies and property management decisions;
- property location and condition;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- any need to address environmental contamination at the property;
- the occurrence of any uninsured casualty at the property;

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- changes in national, regional or local economic conditions and/or the conditions of specific industry segments in which our lessees may operate;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates and other operating expenses;
- the availability of debt or equity financing;
- increases in costs of construction material;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation and zoning laws; and
- acts of God, terrorism, social unrest and civil disturbances.

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

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

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

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

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

Historically, we have invested in B notes. A B note is a loan typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B note owners after payment to the senior note owners. Since each transaction is privately negotiated, B notes can vary in their structural characteristics and risks. For example, the rights of holders of B notes to control the process following a borrower default may be limited in certain investments. We currently own one B note, with a book value of $16.1 million, and do not expect that we will make further B note investments during 2014. However, depending upon market and economic conditions, we could resume making B note investments at any time. B notes are less liquid than other forms of commercial real estate debt investments, such as CMBS, and, as a result, we may be able to dispose of underperforming or non-performing B note investments only at a significant discount to book value.

Risks Related to Our Organization and Structure

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

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

- There are ownership limits and restrictions on transferability and ownership in our charter. For purposes of assisting us in maintaining our REIT qualification under the Internal Revenue Code, our charter generally prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of any class or series of our outstanding capital stock. This restriction may:

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- discourage a tender offer or other transactions or a change in the composition of our board of directors or control that might involve a premium price for our shares or otherwise be in the best interests of our stockholders; or
- result in shares issued or transferred in violation of such restrictions being automatically transferred to a trust for a charitable beneficiary, resulting in the forfeiture of those shares.

- Our charter permits our board of directors to issue stock with terms that may discourage a third-party from acquiring us. Our board of directors may amend our charter without stockholder approval to increase the total number of authorized shares of stock or the number of shares of any class or series and issue common or preferred stock having preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications, or terms or conditions of redemption as determined by our board. Thus, our board could authorize the issuance of stock with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of our shares might receive a premium for their shares over the then-prevailing market price.
- Our charter and bylaws contain other possible anti-takeover provisions. Our charter and bylaws contain other provisions, including advance notice procedures for the introduction of business and the nomination of directors, that may have the effect of delaying or preventing a change in control of us or the removal of existing directors and, as a result, could prevent our stockholders from being paid a premium for their common stock over the then-prevailing market price.

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

Maryland Control Share Acquisition Act. Maryland law provides that "control shares" of a corporation acquired in a "control share acquisition" will have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. The act defines "control shares" as voting shares of stock that, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: one-tenth or more but less than one-third, one-third or more but less than a majority, or a majority or more of all voting power. A "control share acquisition" means the acquisition of control shares, subject to specific exceptions. If voting rights or control shares acquired in a control share acquisition are not approved at a stockholders' meeting or if the acquiring person does not deliver an acquiring person statement as required by the Maryland Control Share Acquisition Act then, subject to specific conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. Our bylaws contain a provision exempting acquisitions of our shares from the Maryland Control Share Acquisition Act. However, our board of directors may amend our bylaws in the future to repeal this exemption.

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

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

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

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

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

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

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

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

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

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

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

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

Our right to take action against the Manager is limited.

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

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

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

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

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

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

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

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

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

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

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

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

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Tax Risks
Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.
To qualify as a REIT for federal income tax purposes, we must continually satisfy various tests regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our common stock. In order to meet these tests, we may be required to forgo investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our investment performance.
In particular, at least 75% of our assets at the end of each calendar quarter must consist of real estate assets, government securities, cash and cash items. For this purpose, “real estate assets” generally include interests in real property, such as land, buildings, leasehold interests in real property, stock of other entities that qualify as REITs, interests in mortgage loans secured by real property, investments in stock or debt instruments during the one-year period following the receipt of new capital and regular or residual interests in a real estate mortgage investment conduit, or REMIC. In addition, the amount of securities of a single issuer, other than a TRS, that we hold must generally not exceed either 5% of the value of our gross assets or 10% of the vote or value of such issuer's outstanding securities.
Certain of the assets that we hold or intend to hold, including interests in CDOs or corporate leveraged loans, are not qualified and will not be qualified real estate assets for purposes of the REIT asset tests. ABS-RMBS and CMBS securities should generally qualify as real estate assets. However, to the extent that we own non-REMIC collateralized mortgage obligations or other debt instruments secured by mortgage loans (rather than by real property) or secured by non-real estate assets, or debt securities that are not secured by mortgages on real property, those securities are likely not qualifying real estate assets for purposes of the REIT asset test, and will not produce qualifying real estate income. Further, whether securities held by warehouse lenders or financed using repurchase agreements are treated as qualifying assets or as generating qualifying real estate income for purposes of the REIT asset and income tests depends on the terms of the warehouse or repurchase financing arrangement.
We generally will be treated as the owner of any assets that collateralize CDO transactions to the extent that we retain all of the equity of the securitization vehicle and do not make an election to treat such securitization vehicle as a TRS, as described in further detail below. It may be possible to reduce the impact of the REIT asset and gross income requirements by holding certain assets through our TRSs, subject to certain limitations as described below.
Our qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may depend on the accuracy of legal opinions or advice rendered or given or statements by the issuers of securities in which we invest, and the inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate level tax.
When purchasing securities, we have relied and may rely on opinions or advice of counsel for the issuer of such securities, or statements, made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, and also to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income which qualifies under the 75% REIT gross income test. In addition, when purchasing CDO equity, we have relied and may rely on opinions or advice of counsel regarding the qualification of interests in the debt of such CDOs for U.S. federal income tax purposes. The inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.
We may realize excess inclusion income that would increase our tax liability and that of our stockholders.
If we realize excess inclusion income and allocate it to stockholders, this income cannot be offset by net operating losses of the stockholders. If the stockholder is a tax-exempt entity, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Internal Revenue Code. If the stockholder is a foreign person, it would be subject to federal income tax withholding on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.
Excess inclusion income could result if we hold a residual interest in a REMIC. Excess inclusion income also could be generated if we issue debt obligations, such as certain CDOs, with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage related securities securing those debt obligations, i.e., if we were to own an interest in a taxable mortgage pool. While we do not expect

to acquire significant amounts of residual interests in REMICs, we do own residual interests in taxable mortgage pools, which means that we will likely generate significant amounts of excess inclusion income.

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If we realize excess inclusion income, we will be taxed at the highest corporate income tax rate on a portion of such income that is allocable to the percentage of our stock held in record name by “disqualified organizations,” which are generally cooperatives, governmental entities and tax-exempt organizations that are exempt from unrelated business taxable income. To the extent that our stock owned by “disqualified organizations” is held in record name by a broker-dealer or other nominee, the broker/dealer or other nominee would be liable for the corporate level tax on the portion of our excess inclusion income allocable to the stock held by the broker-dealer or other nominee on behalf of “disqualified organizations.” We expect that disqualified organizations will own our stock. Because this tax would be imposed on us, all of our investors, including investors that are not disqualified organizations, would bear a portion of the tax cost associated with the classification of us or a portion of our assets as a taxable mortgage pool. A regulated investment company or other pass through entity owning stock in record name will be subject to tax at the highest corporate rate on any excess inclusion income allocated to its owners that are disqualified organizations. Finally, if we fail to qualify as a REIT, our taxable mortgage pool securitizations will be treated as separate corporations, for federal income tax purposes that cannot be included in any consolidated corporate tax return.

Failure to qualify as a REIT would subject us to federal income tax, which would reduce the cash available for distribution to our stockholders.

We believe that we have been organized and operated in a manner that has enabled us to qualify as a REIT for federal income tax purposes commencing with our taxable year ended on December 31, 2005. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis.

If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we will be subject to federal income tax, including any applicable alternative minimum tax on our taxable income, at regular corporate rates. Distributions to stockholders would not be deductible in computing our taxable income. Corporate tax liability would reduce the amount of cash available for distribution to our stockholders. Under some circumstances, we might need to borrow money or sell assets in order to pay that tax. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for the statutory relief provisions, we no longer would be required to distribute substantially all of our REIT taxable income, determined without regard to the dividends paid deduction and not including net capital gains, to our stockholders. Unless our failure to qualify as a REIT was excused under federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify. In addition, if we fail to qualify as a REIT, our taxable mortgage pool securitizations will be treated as separate corporations for U.S. federal income tax purposes.

Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders.

In order to qualify as a REIT, in each calendar year we must distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

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

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

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

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

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

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

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

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

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge MBS and related borrowings. Under these provisions, our annual gross income from qualifying and non-qualifying hedges of our borrowings, together with any other income not generated from qualifying real estate assets, cannot exceed 25% of our gross income. In addition, our aggregate gross income from non-qualifying hedges, fees and certain other non-qualifying sources cannot exceed 5% of our annual gross income determined without regard to income from qualifying hedges. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through Resource TRS. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

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The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were able to sell or securitize loans in a manner that was treated as a sale of the loans for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans and may limit the structures we utilize for our securitization transactions even though such sales or structures might otherwise be beneficial to us.

Tax law changes could depress the market price of our common stock.

The federal income tax laws governing REITs or the administrative interpretations of those laws may be amended at any time. We cannot predict when or if any new federal income tax law or administrative interpretation, or any amendment to any existing federal income tax law or administrative interpretation, will become effective and any such law or interpretation may take effect retroactively. Tax law changes could depress our stock price or restrict our operations.

Dividends paid by REITs do not qualify for the reduced tax rates provided for under current law.

Dividends paid by REITs are generally not eligible for the reduced 15% maximum tax rate for dividends paid to individuals(20% for those with taxable income above $400,000 (if single) or $450,000 (if married and filing jointly) under current law. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends to which more favorable rates apply, which could reduce the value of the stocks of REITs. Dividends from REITs as well as regular corporate dividends will also be subject to a 3.8% Medicare surtax for taxpayers with modified adjusted gross income above $200,000 (if single) or $250,000 (if married and filing jointly).

We may lose our REIT qualification or be subject to a penalty tax if the Internal Revenue Service successfully challenges our characterization of income inclusions from our foreign TRSs.

We likely will be required to include in our income, even without the receipt of actual distributions, earnings from our foreign TRSs, including from our current and contemplated equity investments in CDOs, such as our investment in Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, and Apidos CLO VIII. We intend to treat certain of these income inclusions as qualifying income for purposes of the 95% gross income test applicable to REITs but not for purposes of the REIT 75% gross income test. The provisions that set forth what income is qualifying income for purposes of the 95% gross income test provide that gross income derived from dividends, interest and other enumerated classes of passive income qualify for purposes of the 95% gross income test. Income inclusions from equity investments in our foreign TRSs are technically neither dividends nor any of the other enumerated categories of income specified in the 95% gross income test for U.S. federal income tax purposes, and there is no clear precedent with respect to the qualification of such income for purposes of the REIT gross income tests. However, based on advice of counsel, we intend to treat such income inclusions, to the extent distributed by a foreign TRS in the year accrued, as qualifying income for purposes of the 95% gross income test. In addition, in 2011, the IRS issued a private letter ruling to a REIT reaching a result consistent with our treatment. Nevertheless, because this income does not meet the literal requirements of the REIT provisions, it is possible that the IRS could successfully take the position that it is not qualifying income. In the event that it was determined not to qualify for the 95% gross income test, we would be subject to a penalty tax with respect to the income to the extent it and other nonqualifying income exceeds 5% of our gross income and/or we could fail to qualify as a REIT. See “Federal Income Tax Consequences of Our Qualification as a REIT.” In addition, if such income was determined not to qualify for the 95% gross income test, we would need to invest in sufficient qualifying assets, or sell some of our interests in our foreign TRSs to ensure that the income recognized by us from our foreign TRSs or such other corporations does not exceed 5% of our gross income, or cease to qualify as a REIT.

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

Many of the terms of our mortgage loans, mezzanine loans and B notes and the loans supporting our MBS have been modified and may in the future be modified to avoid foreclosure actions and for other reasons. If the terms of the loan are modified in a manner constituting a "significant modification," such modification triggers a deemed exchange for tax purposes of the original loan for the modified loan. In Revenue Procedure 2011-16, the IRS addressed the treatment of modified mortgage loans and distressed debt for purposes of the REIT gross income and asset tests. Under existing Treasury Regulations, if a loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of (1) the date we agreed to acquire or originate the loan or (2) in the event of certain significant modifications, the date we modified the loan, then a portion of the interest income from such a loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. Although the law is not entirely clear, a portion of the loan may not be treated as a qualifying "real estate asset" for purposes of the 75% asset test. The non-qualifying portion of such a loan would be subject to, among other requirements, the 10% value test.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Philadelphia, Pennsylvania:
We maintain offices through our Manager. Our Manager and Resource America maintains executive and corporate offices at One Crescent Drive in the Philadelphia Navy Yard, Philadelphia, Pennsylvania, under a lease for 13,484 square feet that expires in May 2019. In addition, in October 2012 and amended in May 2013, Resource America signed a ten-year lease which commenced in August 2013 for 34,476 square feet of office space at 1845 Walnut Street, Philadelphia, Pennsylvania, an office building in which Resource America owns a 7% equity interest. The lease expires in September 2023.
New York, New York:
Resource America maintains additional executive offices in a 12,930 square foot location at 712 5th Avenue, New York, New York under a lease agreement that expires in July 2020. A portion of this office space is sublet to The Bancorp, Inc., an affiliated entity of Resource America.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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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

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

	High	Low	Dividends Declared
December 31, 2013			
Fourth Quarter	$6.23	$5.77	$0.20 (1)
Third Quarter	$6.64	$5.42	$0.20
Second Quarter	$6.72	$6.06	$0.20
First Quarter	$6.87	$5.81	$0.20
December 31, 2012			
Fourth Quarter	$6.13	$5.36	$0.20
Third Quarter	$6.28	$5.27	$0.20
Second Quarter	$5.55	$5.09	$0.20
First Quarter	$5.99	$5.39	$0.20

(1) We distributed a regular dividend of $0.20 on January 28, 2014, to stockholders of record as of December 31, 2013.

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

As of February 26, 2014, there were 128,420,570 common shares outstanding held by 452 persons of record.

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

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

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

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Recent Sales of Unregistered Securities

In accordance with the provisions of the management agreement, on April 30, 2012, July 31, 2012 and October 31, 2012 we issued 28,252, 83,776 and 34,506 shares of common stock, respectively, to our Manager. These shares represented 25% of the Manager's quarterly incentive compensation fee that accrued for the three months ended March 31, 2012, for the three months ended June 30, 2012 and for the three months ended September 30, 2012, respectively. The issuance of these shares was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

Performance Graph

The following line graph presentation compares cumulative total shareholder returns of our common stock with the Russell 2000 Index and the NAREIT All REIT Index for the period from February 10, 2006 to December 31, 2013. The graph and table assume that $100 was invested in each of our common stock, the Russell 2000 Index and the NAREIT All REIT Index on December 31, 2007, and that all dividends were reinvested. This data as furnished by the Research Data Group.

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ITEM 6 . SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF
RESOURCE CAPITAL CORP AND SUBSIDIARIES

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

	As of and for the Years Ended December 31,				
	2013	2012	2011	2010	2009
Consolidated Income Statement Data:					
REVENUES:					
Interest income	$117,976	$133,330	$109,874	$103,911	$97,593
Interest expense	61,010	42,792	32,186	36,466	45,427
Net interest income	56,966	90,538	77,688	67,445	52,166
Other revenues	3,456	5,156	11,162	330	85
Rental income	19,923	11,463	3,656	35	—
Net realized gain on sales of investment securities available-for-sale and loans	10,986	4,106	2,643	4,821	1,890
Net realized and unrealized (loss) gain on investment securities, trading	(324)	12,435	837	14,791	—
Total revenues	91,007	123,698	95,986	87,422	54,141
OPERATING EXPENSES	61,561	78,452	62,139	102,733	90,913
	29,446	45,246	33,847	(15,311)	(36,772)
OTHER REVENUE (EXPENSE)					
Gain on consolidation	—	2,498	—	—	—
Gain on the extinguishment of debt	—	16,699	3,875	34,610	44,546
Gain on sale of real estate	16,616	—	—	—	—
Other income (expense)	391	—	(6)	148	(1,435)
Total other revenue	17,007	19,197	3,869	34,758	43,111
NET INCOME	$46,453	$64,443	$37,716	$19,447	$6,339
NET INCOME ALLOCABLE TO COMMON SHARES	$39,232	$63,199	$37,716	$19,447	$6,339
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$262,270	$85,278	$43,116	$29,488	$51,991
Restricted cash	63,309	94,112	142,806	168,192	85,125
Investment securities, trading	11,558	24,843	38,673	17,723	—
Investment securities available-for-sale, pledged as collateral, at fair value	162,608	195,200	136,188	57,998	39,304
Investment securities available-for-sale, at fair value	47,229	36,390	4,678	5,962	5,238
Investment securities held-to-maturity, pledged as collateral	—	—	—	29,036	31,401
Investment in real estate	29,778	75,386	48,027	—	—

Loans, pledged as collateral and net of allowances of $13.8 million, $17.7 million, $27.5 million, $34.2 million and $47.1 million	1,369,526	1,793,780	1,772,063	1,443,271	1,557,757
Loans held for sale	21,916	48,894	3,154	28,593	8,050
Investments in unconsolidated entities	74,438	45,413	47,899	6,791	3,605
Intangible assets	11,822	13,192	19,813	—	—
Total assets	2,151,427	2,478,251	2,284,724	1,934,200	1,791,404
Borrowings	1,319,810	1,785,600	1,794,083	1,543,251	1,534,874
Total liabilities	1,377,503	1,864,906	1,855,034	1,585,874	1,562,574
Total stockholders' equity	773,924	613,345	429,690	348,326	228,830

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	As of and for the Years Ended December 31,				
	2013	2012	2011	2010	2009
Per Share Data:					
Dividends declared per common share	$0.80	$0.80	$1.00	$1.00	$1.15
Net income per share - basic	$0.33	$0.71	$0.54	$0.41	$0.25
Net income per share – diluted	$0.33	$0.71	$0.53	$0.41	$0.25
Weighted average number of shares outstanding - basic	118,478,672	88,410,272	70,410,131	47,715,082	25,205,403
Weighted average number of shares outstanding - diluted	120,038,973	89,284,488	70,809,088	47,907,281	25,355,821

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

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

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

We are externally managed by Resource Capital Manager, Inc., or the Manager,an indirect wholly-owned subsidiary of Resource America, Inc. (NASDAQ: REXI), or Resource America, a specialized asset management company that uses industry-specific expertise to evaluate, originate, service and manage investment opportunities through its commercial real estate, financial fund management and commercial finance operating segments. As of September 30, 2013, Resource America managed approximately $16.6 billion of assets in these sectors. To provide its services, the Manager draws upon Resource America, its management team and their collective investment experience.

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

During December 31, 2013, the economic environment continued to be more positive in the United States, which resulted in several positive operating developments for us. Our ability to access the capital markets continued to improve, as evidenced by our common stock offering in April 2013, resulting in proceeds to us of $114.5 million, and by the success of our dividend reinvestment and share purchase program, or DRIP, which raised $19.2 million. In addition, we supplemented our common equity issuances with issuances of preferred stock through an at-the-market program which resulted in proceeds of $56.8 million in 2013. We also completed a 6.0% convertible notes offering in October 2013 with proceeds of $111.1 million. This brought our total proceeds raised through our capital markets efforts to $301.6 million in 2013, after underwriting discounts and commissions and other offering expenses.

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Although economic conditions in the United States have improved, previous conditions in real estate and credit markets continue to affect both us and a number of our commercial real estate borrowers. Over a period of several years, we entered into loan modifications with respect to 17 of our outstanding commercial real estate loans. During the past three years, we have added to our provision for loan losses to reflect the effect of these conditions on our borrowers and have recorded both temporary and other than temporary impairments in the market valuation of CMBS and ABS in our investment portfolio. However, during 2012 and into December 31, 2013, the improved economic conditions led to a stabilization in the credit quality of our portfolio and, as a result, our provision for loan losses has decreased significantly for 2013. We expensed provisions of $3.0 million for the year ended December 31, 2013 as compared to provisions of $16.8 million for the year ended December 31, 2012. Our asset impairments have increased slightly, we recognized asset impairments of $863,000 for the year ended December 31, 2013 as compared to $180,000 for the year ended December 31, 2012. We also saw a marked improvement in other comprehensive income with respect to our available for sale securities portfolio and interest rate derivatives, which declined to a loss of $14.0 million at December 31, 2013 from a loss of $27.1 million at December 31, 2012. While we believe we have appropriately valued the assets in our investment portfolio at December 31, 2013, we cannot assure you that further impairments will not occur or that our assets will otherwise not be adversely affected by market conditions.

Beginning in 2011, we began to see a loosening of the credit markets and were able to take advantage of the situation by establishing several new financing arrangements, a trend that continued in 2012 when we closed two financing facilities totaling $250.0 million with Wells Fargo Bank and in 2013 when we closed a $200.0 million financing facility with Deutsche Bank AG, or DB. We continue to engage in discussions with potential financing sources about providing commercial real estate term financing to augment and cautiously grow our loan and security portfolio. We have expanded our borrowings with the use of term and additional repurchase agreements and are using them primarily to finance newly underwritten commercial real estate loans and the purchase of highly rated CMBS. We anticipate replacing these short-term borrowings with longer term financing in the form of securitization borrowings as we did with our newest commercial real estate, or CRE securitization, a $307.8 million CLO in December 2013. We expect to be able to continue the growth in our CRE portfolio to a critical amount required to access the securitization markets again during 2014. However, we caution investors that even as financing through the credit markets becomes more available, we may not be able to obtain economically favorable terms.

In terms of our investments and investment portfolio growth, we continued to see increased opportunities to deploy our capital. Beginning in October 2010 through December 31, 2013, we have underwritten 51 new CRE loans for a total of $664.2 million, some of which were financed by using capital recycled through our two real estate CDO securitizations. The balances were financed through our CRE term facilities and our new CRE securitization. We also purchased 48 newly underwritten CMBS for $164.3 million beginning in February 2011 through December 31, 2013, all of which were financed with a Wells Fargo facility. We also purchased eight CMBS bonds for $32.4 million that were financed by our two CRE CDOs beginning in February 2011 through December 31, 2013. In addition, we purchased 19 CMBS bonds for $79.7 million that were financed by short-term repurchase agreements and also purchased 14 CMBS bonds for $75.3 million where no debt financing sources were utilized. We have used recycled capital in our bank loan CLO structures to make new investments at discounts to par. We expect that the reinvested capital and related discounts will produce additional income as the discounts are accreted into interest income. In addition, the purchase of these investments at discounts allows us to build collateral in the CLO structures since we receive credit in these structures for these investments at par. From net discounts of approximately $27.1 million at December 31, 2012, we recognized income of approximately $10.0 million in our bank loan CLO portfolio for 2013 and expect to accrete approximately $1.7 million into income in calendar year 2014. However, we have no further capacity in two of our bank loan collateralized loan obligation issuers, or CLOs, and two real estate CDOs have ended their reinvestment periods. We continue to have reinvestment capacity in one bank loan CLO where the reinvestment period continues to May 2014. We intend to use the existing capacity in our CMBS and CRE term credit facilities with Wells Fargo of $50.9 million and $207.6 million, respectively, and with Deutsche Bank of $200.0 million, as of February 28, 2014 to help finance new CRE and CMBS investments.

Conversely, we also saw a decline in our commercial finance assets, our bank loan portfolio as two of our CLOs were liquidated in 2013 and two or our CLOs have matured and as the collateral assets pay down, the proceeds are used to pay down the associated debt. This trend has seen our net interest income from bank loans decline substantially in 2013. We expect to mitigate this trend by deploying capital into our middle-market lending business, which loans are similar in nature to bank loans, and in our growing commercial real estate lending platform.

Due to these recent developments, our increased ability to access credit markets, our recent capital markets efforts and our investment of a significant portion of our available unrestricted and restricted cash balances during 2013, we expect to continue to modestly increase our net interest income into 2014. However, because we believe that economic conditions in the United States are fragile, and could be significantly harmed by occurrences over which we have no control, we cannot assure you that we will be able to meet our expectations, or that we will not experience net interest income reductions.

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On October 31, 2013, we, through RCC Residential, Inc., our newly-formed taxable REIT subsidiary, acquired a residential mortgage origination company, Primary Capital Advisors LC, or PCA, an Atlanta based firm for $7.6 million in cash. In addition, a key employee of PCA was granted approximately $800,000 in shares of our common stock that was subsequently accounted for as compensation. The shares of common stock were issued in a private transaction exempt from registration under Section 4(2) of the Securities Act of 1933, as amended. Of the $7.6 million cash consideration, $1.8 million was set aside in an escrow account as a contingency for potential purchase price adjustments. Our acquisition of PCA represents a return to the residential mortgage investment market, by providing us with our first residential mortgage origination platform. We intend to cautiously expand this business over the next 12 to 15 months while adding infrastructure, staff and new technology.

In the latter half of 2013, we provided a middle market lending operation operated by our Manager with funds to invest on our behalf. These funds were derived from proceeds of sales from a partial liquidation of our trading portfolio. Our first investments were in bank loans purchased in the secondary market; however, in December 2013, we closed on a self-originated loan. We expect to grow this business in 2014, which will help mitigate the revenues lost as a result of the liquidation and run-off of several bank loan CLOs.

As of December 31, 2013 and 2012, we had invested 83% of our portfolio in CRE assets, 15% in commercial bank loans and 2% in other assets.

Results of Operations

Our net income allocable to common shares for the year ended December 31, 2013 was $39.2 million, or $0.33 per share (basic and diluted) as compared to net income allocable to common shares of $63.2 million, or $0.71 per share (basic and diluted) for the year ended December 31, 2012, and as compared to net income allocable to common shares of $37.7 million, or $0.54 per share-basic ($0.53 per share-diluted) for the year ended December 31, 2011.

Interest Income

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

	Years Ended December 31, 2013	2012	2011
Interest income:			
Interest income from loans:			
Bank loans	$54,143	$71,511	$54,833
Commercial real estate loans	45,312	37,519	31,906
Total interest income from loans	99,455	109,030	86,739
Interest income from securities:			
CMBS-private placement	11,411	11,358	9,290
ABS	1,399	1,503	1,613
Corporate bonds	814	368	—
Residential mortgage-backed securities, or RMBS	685	1,067	1,521
Total interest income from securities	14,309	14,296	12,424
Interest income - other:			
Preference payments on structured notes [1]	3,918	9,773	10,432
Temporary investment in over-night repurchase agreements	294	231	279
Total interest income - other	4,212	10,004	10,711
Total interest income	$117,976	$133,330	$109,874

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	Year Ended December 31, 2013 Weighted Average		Year Ended December 31, 2012 Weighted Average		Year Ended December 31, 2011 Weighted Average	
	Yield	Balance	Yield	Balance	Yield	Balance
Interest income:						
Interest income from loans:						
Bank loans	5.54%	$975,032	5.94%	$1,189,898	5.63%	$963,427
Commercial real estate loans	5.81%	$767,287	5.25%	$701,836	4.95%	$646,121
Interest income from securities:						
CMBS-private placement	4.93%	$229,272	5.22%	$216,460	5.65%	$160,593
ABS	5.06%	$27,399	4.80%	$32,087	4.85%	$32,879
Corporate bonds	3.91%	$20,220	4.29%	$8,237	N/A	N/A
RMBS	5.55%	$12,348	3.10%	$34,396	2.93%	$51,844
Preference payments on structured notes	10.10%	$38,778	19.07%	$51,239	32.95%	$31,663

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

Type of Security	Coupon Interest		Unamortized (Discount) Premium		Net Amortization/ Accretion		Interest Income	Fee Income	Total
Year Ended December 31, 2013:									
Bank loans	4.26	%	$(3,676	)	$9,485		$41,932	$2,726	$54,143
Commercial real estate loans	5.57	%	$(92	)	35		43,926	1,351	45,312
Total interest income from loans					9,520		85,858	4,077	99,455
CMBS-private placement	3.74	%	$(6,583	)	2,050		9,361	—	11,411
RMBS					—		685	—	685
ABS	2.06	%	$(2,394	)	681		718	—	1,399
Corporate bonds	4.13	%	$(68	)	(18	)	832	—	814
Total interest income from securities					2,713		11,596	—	14,309
Preference payments on structured notes					—		3,918	—	3,918
Other					—		294	—	294
Total interest income - other					—		4,212	—	4,212
Total interest income					$12,233		$101,666	$4,077	$117,976
Year Ended December 31, 2012:									
Bank loans	4.25	%	$(24,465	)	$17,784		$51,580	$2,147	$71,511
Commercial real estate loans	5.05	%	$(127	)	33		35,759	1,727	37,519
Total interest income from loans					17,817		87,339	3,874	109,030
CMBS-private placement	3.60	%	$(8,011	)	2,635		8,723	—	11,358
RMBS					—		1,067	—	1,067
ABS	2.41	%	$(3,145	)	718		785	—	1,503
Corporate bonds	3.69	%	$479		(26	)	394	—	368
Total interest income from securities					3,327		10,969	—	14,296
Preference payments on structured notes					—		9,773	—	9,773
Other					—		231	—	231
Total interest income - other					—		10,004	—	10,004
Total interest income					$21,144		$108,312	$3,874	$133,330
Year Ended December 31, 2011:									
Bank loans	3.76	%	$(31,787	)	$15,539		$36,932	$2,362	$54,833
Commercial real estate loans	4.64	%	$(160	)	12		30,249	1,645	31,906
Total interest income from loans					15,551		67,181	4,007	86,739
CMBS-private placement	3.60	%	$(13,391	)	3,270		6,020	—	9,290
RMBS					—		1,521	—	1,521
ABS	2.60	%	$(3,812	)	524		1,089	—	1,613
Other ABS					—		—	—	—
Total interest income from securities					3,794		8,630	—	12,424
Preference payments on structured notes					—		10,432	—	10,432
Other					—		279	—	279
Total interest income - other					—		10,711	—	10,711
Total interest income					$19,345		$86,522	$4,007	$109,874

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012
Aggregate interest income decreased $15.4 million (12%) to $118.0 million for the year ended December 31, 2013, from $133.3 million for the year ended December 31, 2012. We attribute this decrease to the following:
Interest Income from Loans. Aggregate interest income from loans decreased $9.6 million (9%) to $99.5 million for the year ended December 31, 2013 from $109.0 million for the year ended December 31, 2012.

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Interest income on bank loans decreased $17.4 million (24%) to $54.1 million for the year ended December 31, 2013 from $71.5 million for the year ended December 31, 2012, which principally was the result of the following:

- a decrease in the weighted average loan balance of $214.9 million to $975.0 million for the year ended December 31, 2013 from $1.2 billion for the year ended December 31, 2012, principally due to two of our CLOs, Apidos CLO VIII and Whitney CLO I , liquidating in September 2013 and October 2013, respectively. In addition, two of our remaining CLOs (Apidos CLO I and Apidos CLO III) had reached the end of their reinvestment periods in prior years and, as a result, any principal collected is used to pay down notes instead of being reinvested in new assets. For the year ended December 31, 2013, Apidos CLO I and Apidos CLO III paid down a total of $173.2 million par value of loans; and
- a decrease in the weighted average yield to 5.54% for the year ended December 31, 2013 as compared to 5.94% for the year ended December 31, 2012, primarily as a result of the decrease in accretion income from Apidos CLO VIII and Whitney CLO I as a result of their liquidation, as well as a decrease in accretion income from Apidos CDO I and Apidos CDO III resulting from decreasing asset and discount balances as both securitizations reached the end of their reinvestment periods.

Interest income on commercial real estate, or CRE, loans increased $7.8 million (21%) to $45.3 million for the year ended December 31, 2013, as compared to $37.5 million for the year ended December 31, 2012. This increase is a result of the following combination of factors:

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

Interest Income from Securities. Aggregate interest income from securities increased $13,000 (0.1%) to $14.3 million for the year ended December 31, 2013 from $14.3 million for the year ended December 31, 2012. The increase in interest income from securities resulted principally from the following:

Interest income on CMBS-private placement increased $53,000 (less than 1%) to $11.4 million for the year ended December 31, 2013 as compared to $11.4 million for the year ended December 31, 2012. The slight increase resulted from an increase in the weighted average balance of assets of $12.8 million during the year ended December 31, 2013 to $229.3 million from $216.5 million for the year ended December 31, 2012 primarily as a result of the purchase of assets on our Wells Fargo CMBS facility beginning in February 2011 and purchases using three short-term repurchase agreements as well as proceeds from our common and preferred stock offerings. This was partially offset by the reclassification of assets to linked transactions when certain assets were financed.

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

Interest income from corporate bonds increased $446,000 (121%) to $814,000 for the year ended December 31, 2013 from $368,000 for the year ended December 31, 2012 and was the result of our acquisition in October 2012 and in May 2013 of 66.6% and 1.7%, respectively, of the equity in Whitney CLO I which resulted in us consolidating this entity that held some corporate bonds. Whitney CLO I was subsequently liquidated in October 2013.

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Interest income on RMBS decreased $382,000 (36%) to $685,000 for the year ended December 31, 2013 as compared to $1.1 million for the year ended December 31, 2012. The decrease is almost entirely the result of the sale of four positions during the year ended December 31, 2012 and two positions during the year ended December 31, 2013.

Interest Income - Other. Aggregate interest income-other decreased $5.8 million (58%) to $4.2 million for the year ended December 31, 2013 as compared to $10.0 million for the year ended December 31, 2012 and is primarily related to the divestiture of a large portion of our trading securities investment program with Resource Capital Markets, Inc., a wholly-owned subsidiary of Resource America, that invested $13.0 million of our funds under an investment management agreement. The payments vary from period to period and are based on cash flows from the underlying securities rather than on a contractual interest rate. The decrease of the weighted average balance of assets of $12.5 million to $38.8 million for the year ended December 31, 2013 as compared to $51.2 million for the year ended December 31, 2012 and was primarily related to the sale of 12 securities in September 2012, which has significantly reduced the balance of investments held in trading securities. The remaining portfolio has decreased substantially as there were eight positions at December 31, 2013 and 26 positions at December 31, 2012, and as a result, there are fewer available distributions from the positions to recognize.

Year Ended December 31, 2012 as compared to Year Ended December 31, 2011

Aggregate interest income increased $23.5 million (21%) to $133.3 million for the year ended December 31, 2012, from $109.9 million for the year ended December 31, 2011. We attribute this increase to the following:

Interest Income from Loans. Aggregate interest income from loans increased $22.3 million (26%) to $109.0 million for the year ended December 31, 2012 from $86.7 million for the year ended December 31, 2011.

Interest income on bank loans increased $16.7 million (30%) to $71.5 million for the year ended December 31, 2012 from $54.8 million for the year ended December 31, 2011. The increase for the year ended December 31, 2012 resulted primarily from the following:

- an increase in the weighted average loan balance of $226.5 million to $1.2 billion for the year ended December 31, 2012 from $963.4 million for the year ended December 31, 2011, principally as a result of our new CLO, Apidos CLO VIII , for which we began acquiring assets in July 2011, and Whitney CLO I, which we began consolidating in October 2012 when we acquired a controlling interest. The increase in the weighted average balance was partially offset by a decrease in the loan asset balances at Apidos CLO I and Apidos CLO III as both have reached the end of their reinvestment period and are now required to use principal proceeds from bank loan payoffs and paydowns to repay outstanding debt. For the year ended December 31, 2012, Apidos CLO I and Apidos CLO III paid down a total of $151.2 million par value of CLOs; and
- an increase in the weighted average yield to 5.94% for the year ended December 31, 2012 as compared to 5.63% for the year ended December 31, 2011, primarily as a result of the increase in accretion income from Apidos CLO VIII for which we began acquiring assets in July 2011. The increase in accretion income from Apidos CLO VIII was partially offset by a decrease in accretion income from Apidos CLO I and Apidos CLO III as those CLOs have decreasing asset and discount balances as both have reached the end of their reinvestment periods.

Interest income on CRE loans increased $5.6 million (18%) to $37.5 million for the year ended December 31, 2012, as compared to $31.9 million for the year ended December 31, 2011. This increase is a result of the following combination of factors:

- an increase of $55.7 million in the weighted average loan balance to $701.8 million for the year ended December 31, 2012 from $646.1 million for the year ended December 31, 2011 as we reinvested proceeds from payoffs and paydowns, classified as restricted CDO cash on our balance sheet, beginning in the fourth quarter of 2011, with the majority of these proceeds being reinvested during the second and third quarters of 2012. In addition, we began to originate new loans financed by our Wells Fargo CRE credit facility coupled with new equity raised in 2012; and
- an increase in the weighted average yield to 5.25% during the year ended December 31, 2012 from 4.95% during the year ended December 31, 2011 as a result of newly originated real estate loans with higher stated interest rates than our legacy portfolio and as a result of an acceleration of fees on one loan that paid off in August 2012.

Interest Income from Securities. Aggregate interest income from securities increased $1.9 million (15%) to $14.3 million for the year ended December 31, 2012 from $12.4 million for the year ended December 31, 2011. The increase in interest income from securities resulted principally from the following:

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Interest income on CMBS-private placement increased $2.1 million (22%) to $11.4 million for the year ended December 31, 2012 as compared to $9.3 million for the year ended December 31, 2011. The increase resulted from an increase in the weighted average balance of assets of $55.9 million during the year ended December 31, 2012 to $216.5 million from $160.6 million for the year ended December 31, 2011 primarily as a result of the purchase of assets on our Wells Fargo CMBS facility beginning in February 2011 as well as purchases using proceeds from our stock offerings in 2012. The increase in interest income on CMBS-private placement was partially offset by a decrease in the weighted average yield of assets to 5.22% for the year ended December 31, 2012 from 5.65% for the year ended December 31, 2011 primarily as a result of the decrease in accretion income during the year ended December 31, 2012. In 2012, securities were purchased at a net premium as opposed to the net discount of our purchases in prior years.

Interest Income - Other. Aggregate interest income-other decreased $707,000 (7%) to $10.0 million for the year ended December 31, 2012, as compared to $10.7 million for the year ended December 31, 2011 and is primarily related to our trading securities investment program with Resource Capital Markets, Inc. which invested $13.0 million of our funds under an investment management agreement. The payments vary from period to period and are based on cash flows from the underlying securities rather than on a contractual interest rate. The decrease for the year ended December 31, 2012 was primarily related to the sale of 12 securities in September 2012 which resulted in the ceasing of preference share payments related to those securities as of their disposition.

Interest Expense

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

	Years Ended December 31, 2013	2012	2011
Interest expense:			
Bank loans	$34,463	$21,781	$11,348
Commercial real estate loans	9,038	7,566	6,397
CMBS-private placement	836	1,024	547
Hedging instruments	6,751	7,266	8,415
Securitized borrowings	5,531	1,993	1,859
Convertible senior notes	1,480	—	—
General	2,911	3,162	3,620
Total interest expense	$61,010	$42,792	$32,186

	Year Ended December 31, 2013 Weighted Average			Year Ended December 31, 2012 Weighted Average			Year Ended December 31, 2011 Weighted Average		
	Yield		Balance	Yield		Balance	Yield		Balance
Interest expense:									
Bank loans	3.54	%	$961,742	1.83	%	$1,174,495	1.16	%	$981,000
Commercial real estate loans	2.15	%	$416,513	1.62	%	$458,032	1.28	%	$499,416
CMBS-private placement	1.72	%	$48,953	2.09	%	$47,533	2.75	%	$19,462
Hedging instruments	5.35	%	$123,999	5.13	%	$138,581	5.27	%	$160,132
Securitized borrowings (1)	30.02	%	$18,568	8.79	%	$21,399	42.90	%	$4,347
Convertible senior notes	6.61	%	$22,685	N/A		N/A	N/A		N/A
General	4.65	%	$61,720	4.75	%	$65,148	6.39	%	$57,249

(1) Third party equity holders interest is accounted for as interest expense in our statements of income using an imputed interest rate on the underlying subordinated debt. 2011 amounts do not include a change in an accounting estimate made in 2011.

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Type of Security	Coupon Interest		Unamortized Deferred Debt Expense	Net Amortization		Interest Expense		Other		Total
Year Ended December 31, 2013:										
Bank loans	1.34	%	$171	$6,131	(1)	$28,332	(1)	$—		$34,463
Commercial real estate loans	1.55	%	$2,554	2,209		6,829		—		9,038
CMBS-private placement	1.41	%	$12	151		685		—		836
Hedging	5.03	%	$171	—		6,751		—		6,751
Securitized borrowings	30.02	%	$—	—		5,531		—		5,531
Convertible senior notes	6.00	%	$8,465	138		1,342		—		1,480
General	4.21	%	$543	192		2,719		—		2,911
Total interest expense				$8,821		$52,189		$—		$61,010
Year Ended December 31, 2012:										
Bank loans	1.36	%	$7,102	$2,846		$18,935		$—		$21,781
Commercial real estate loans	1.08	%	$610	2,292		5,274		—		7,566
CMBS-private placement	1.52	%	$23	271		753		—		1,024
Hedging	4.97	%	$932	—		7,266		—		7,266
Securitized borrowings	14.40	%	$—	—		3,195		(1,202	)	1,993
General	4.43	%	$734	65		3,097		—		3,162
Total interest expense				$5,474		$38,520		$(1,202	)	$42,792
Year Ended December 31, 2011:										
Bank loans	0.94	%	$9,948	$1,894		$9,454		$—		$11,348
Commercial real estate loans	0.97	%	$2,918	1,447		4,950		—		6,397
CMBS-private placement	1.48	%	$494	247		300		—		547
Hedging	4.95	%	$1,160	—		8,415		—		8,415
Securitized borrowings	15.27	%	$—	—		1,859		—		1,859
General	5.75	%	$917	46		3,574		—		3,620
Total interest expense				$3,634		$28,552		$—		$32,186

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

Aggregate interest expense increased $18.2 million (43%) to $61.0 million for the year ended December 31, 2013, from $42.8 million for the year ended December 31, 2012. We attribute this increase to the following:

Interest expense on bank loans was $34.5 million for the year ended December 31, 2013 as compared to $21.8 million for the year ended December 31, 2012, an increase of $12.7 million (58%). This increase resulted primarily from the increase in the weighted average yield to 3.54% for the year ended December 31, 2013 as compared to 1.83% for the year ended December 31, 2012 primarily due to an increase in expense related to Apidos CLO VIII and Whitney CLO I which was liquidated in September 2013 and October 2013, respectively. This accelerated the original issue discount and deferred issuance costs recorded when these CLOs were initially consolidated.

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The increase in interest expense resulting from the increase in the weighted average yield was partially offset by a decrease in the weighted average balance of the related financings of $212.8 million (18%) to $961.7 million for the year ended December 31, 2013 as compared to $1.2 billion for the year ended December 31, 2012 due to the call and liquidation of Apidos CLO VIII and Whitney CLO I in September 2013 and October 2013, respectively, which resulted in the paydown of all outstanding notes. In addition, Apidos CDO I and Apidos CDO III reached the end of their reinvestment periods in prior years. During the year ended December 31, 2013, Apidos CDO I paid down $116.1 million in principal amount of its CDO notes and Apidos CDO III paid down $75.9 million in principal amount of its CDO notes.

Interest expense on CRE loans was $9.0 million for the year ended December 31, 2013, as compared to $7.6 million for the year ended December 31, 2012, an increase of $1.5 million (19%) as a result of increase in the weighted average yield to 2.15% for the year ended December 31, 2013 as compared to 1.62% for the year ended December 31, 2012 which was due primarily to note paydowns which increased the weighted average cost of these borrowings as the lower yield debt was repaid as required in the indenture agreements.

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

Hedge expense decreased $515,000 (7%) to $6.8 million for the year ended December 31, 2013 as compared to $7.3 million for the year ended December 31, 2012. The decrease in the hedging expense was primarily due to the scheduled amortization on swaps and, to a lesser extent, changes in LIBOR.

Securitized borrowings expense increased $3.5 million to $5.5 million for the year ended December 31, 2013 as compared to $2.0 million for the year ended December 31, 2012. This interest expense is related to our subordinated investments in Apidos CLO VIII and Whitney CLO I. The interest expense is imputed using an estimated internal rate of return based on expected cash flows over the life of each CLO. The increase for the year ended December 31, 2013 was due to acceleration of expense as a result of the liquidation of these CLOs.

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

Year Ended December 31, 2012 as compared to Year Ended December 31, 2011

Aggregate interest expense decreased $10.6 million (33%) to $42.8 million for the year ended December 31, 2012, from $32.2 million for the year ended December 31, 2011. We attribute this decrease to the following:

Interest expense on bank loans was $21.8 million for the year ended December 31, 2012, as compared to $11.3 million for the year ended December 31, 2011, an increase of $10.4 million (92%). This increase resulted primarily from the following:

- an increase in the weighted average balance of the related financings of $193.5 million (20%) to $1.2 billion for the year ended December 31, 2012 as compared to $981.0 million for the year ended December 31, 2011 due to the closing of our new CLO, Apidos CLO VIII, which occurred in October 2011 and from the consolidation of Whitney CLO I in which we acquired a controlling interest in October 2012. The increase in weighted average balance of financings from the two new CLOs was partially offset by the debt amortization of Apidos CDO I and Apidos CDO III as they reached the end of their reinvestment periods in July 2011 and June 2012, respectively. During the period July, 31, 2011 through December 31, 2012, Apidos CDO I paid down $116.3 million in principal amount of its CDO notes. During the period from July 1, 2012 through December 31, 2012, Apidos CDO III paid down $40.5 million in principal amount of its CDO notes; and
- an increase in the weighted average rate to 1.83% for the year ended December 31, 2012 from 1.16% for the year ended December 31, 2011 primarily as a result of the increase in LIBOR, a reference index for the rates payable on most of these financings as well as a full year of interest expense on Apidos CLO VIII which has a higher weighted average rate than our legacy Apidos CLOs as a result of market conditions as the time that Apidos CLO VIII was closed.

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Interest expense on commercial real estate loans was $7.6 million for the year ended December 31, 2012, as compared to $6.4 million for the year ended December 31, 2011, an increase of $1.2 million (18%). This increase resulted primarily from the acceleration of deferred debt issuance costs on RREF CDO 2007-1 as a result of note repurchases and deferred debt issuance costs on our new credit facility during the year ended December 31, 2012, which increased the weighted average cost of these borrowings.

Interest expense on CMBS-private placement increased $477,000 (87%) to $1.0 million for the year ended December 31, 2012 as compared to $547,000 for the year ended December 31, 2011. The increase is due entirely to a Master Repurchase Agreement with Wells Fargo Bank that we entered into in February 2011 to use in acquiring highly-rated CMBS.

These increases were partially offset by a decrease in interest expense on hedging instruments of $1.1 million (14%) to $7.3 million for the year ended December 31, 2012 as compared to $8.4 million for the year ended December 31, 2011. The decrease in the hedging expense was primarily due to the maturities of $37.9 million notional amount of hedges beginning in July 2011 through August 2012.

Interest expense on securitized borrowings increased $134,000 (7%) to $2.0 million for the year ended December 31, 2012 as compared to $1.9 million for the year ended December 31, 2011. This interest expense is related to our subordinated investments in Apidos CLO VIII and Whitney CLO I. The interest expense is imputed by an estimated internal rate of return based on expected cash flows over the life of each CLO.

This increase was partially offset by a decrease in general interest expense of $458,000 (13%) to $3.2 million for the year ended December 31, 2012 as compared to $3.6 million for the year ended December 31, 2011. The decrease is primarily the result of the expiration of a two-year amendment on our trust preferred securities, or TRUPs, on September 30, 2011 which reduced the contractual interest rate on our TRUPs by 2%.

Other Revenue

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

	Years Ended December 31, 2013	2012	2011
Other revenue:			
Rental income	$19,923	$11,463	$3,656
Dividend income	273	69	3,045
Equity in net earnings (losses) of unconsolidated subsidiaries	949	(2,709)	112
Fee income	6,075	7,068	7,789
Net realized gain on investment securities available-for-sale and loans	10,986	4,106	2,643
Net realized and unrealized (loss) gain on investment securities, trading	(324)	12,435	837
Unrealized (loss) gain and net interest income on linked transactions, net	(3,841)	728	216
Total other revenue	$34,041	$33,160	$18,298

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

Rental income increased $8.5 million (74%) to $19.9 million for the year ended December 31, 2013 as compared to $11.5 million for the year ended December 31, 2012. The increase is primarily related to a full year of income generated by a hotel property in 2013 which we acquired by converting a loan to an equity position in September 2012. The hotel was held for sale at December 31, 2013.

Equity in net earnings (losses) of unconsolidated subsidiaries increased $3.7 million (135%) to earnings of $949,000 during the year ended December 31, 2013 from a loss of $2.7 million for the year ended December 31, 2012. The increase in earnings was primarily related to our investment in LCC for which we realized a loss of $183,000 for the year ended December 31, 2013 as compared to a loss of $3.3 million for the year ended December 31, 2012. In addition, we recognized $1.2 million of income related to our investment in CVC Global Credit Opportunities Fund, L.P. There was no such investment during the year ended December 31, 2012.

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Fee income decreased $993,000 (14%) to $6.1 million for the year ended December 31, 2013 from $7.1 million for the year ended December 31, 2012. This income is primarily related to our February 2011 acquisition of a company that manages bank loan assets and entitled us to collect senior, subordinated and incentive fees related to five CLOs. The decrease during the year ended December 31, 2013 is related to the consolidation of Whitney CLO I in October 2012 due to our acquisition of a controlling interest. As a result of consolidation, the related fee income terminated. In October 2013, this CLO was liquidated. In addition, a second CLO in that portfolio liquidated in January 2013 and, as a result, no longer provides fee income.

Net realized gain on investment securities available-for-sale and loans increased $6.9 million (168%) to $11.0 million for for the year ended December 31, 2013 from $4.1 million for the year ended December 31, 2012. The increase for the year ended December 31, 2013 is primarily due to gains of $5.0 million as a result of the liquidation of Apidos CLO VIII in October 2013 as well as gains of $2.2 million on the sales of residential mortgage loans, a business we acquired in October 2013.

Net realized and unrealized (loss) gain on investment securities, trading decreased $12.8 million (103%) to a loss of $324,000 during the year ended December 31, 2013 as compared to a gain of $12.4 million during the year ended December 31, 2012 primarily, as a result of a sale of nine securities in 2013 and 12 securities in September 2012, which has significantly reduced the balance of investments held in trading securities. The remaining portfolio has decreased substantially as we held eight positions and 13 positions at December 31, 2013 and December 31, 2012, respectively, and as a result, there is less opportunity to realize gains. In addition, marks decreased at December 31, 2013 as a result of a downturn in the market for these types of securities.

Realized (loss) gain and net interest income on linked transactions, net, decreased $4.6 million (628%) to a loss of $3.8 million for the year ended December 31, 2013 from a gain of $728,000 for the year ended December 31, 2012 . The amounts are related to our CMBS securities that are purchased with repurchase agreements with the same counterparty from whom the securities are purchased. These transactions are entered into contemporaneously or in contemplation of each other and are presumed not to meet sale accounting criteria. We account for these transactions on a net basis and record a forward purchase commitment to purchase securities (each, a “linked transaction”) at fair value. The increase in expense for the year ended December 31, 2013 resulted from the change in market value of our linked transactions with longer duration to maturity at December 31, 2013 as compared to December 31, 2012.

Year Ended December 31, 2012 as compared to Year Ended December 31, 2011

Rental income was $11.5 million and $3.7 million for the years ended December 31, 2012 and 2011, respectively, and is related to our investments in real estate and to a lesser extent, our property available-for-sale. We acquired two properties in June 2011 and one property in August 2011 (a full year of whose results were reflected in 2012) and one property in September 2012.

We received dividend income of $69,000 and $3.0 million for the years ended December 31, 2012 and 2011, respectively. Substantially all of our dividend income for the year ended December 31, 2011 is related to a transaction whereby on November 16, 2011, we entered into an agreement and exchanged our old preferred interest in LEAF Commercial Capital, Inc., or LCC, an equipment leasing company, for a new preferred interest in LCC as part of LCC's recapitalization. We have accounted for our resulting interest under the equity method subsequent to November 16, 2011 and, therefore, we no longer record dividend income from this investment. As of November 16, 2011, we record our equity interest in other income (expense). For the year ended December 31, 2012, we recorded a loss of $3.3 million on our equity interest.

We generated management fee income of $7.1 million and $7.8 million for the years ended December 31, 2012 and 2011, respectively, which is related to our February 2011 acquisition of a company that manages bank loan assets that entitles us to collect senior, subordinated, and incentive fees related to five collateralized loan obligation issuers, or CLOs. The decrease during the year ended December 31, 2012 is primarily related to the consolidation of Whitney CLO I in October 2012 as a result of our acquisition of a controlling interest. As a result of consolidation, the related fee income eliminates in consolidation.

Net realized gains on investment securities available-for-sale and loans increased $1.5 million (55%) to $4.1 million for the year ended December 31, 2012 from $2.6 million for the year ended December 31, 2011. The increase for the year ended December 31, 2012 is primarily the result of net loss of $2.4 million on the sale of ABS during the year ended December 31, 2011 which did not recur in 2012. In addition, during the year ended December 31, 2012, there were $1.1 million more in gains from the sales from Apidos loans as compared to the year ended December 31, 2011. These increases were partially offset by $2.1 million less in gains from the sale of CMBS securities during the year ended December 31, 2012.

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Net realized and unrealized gain on investment securities, trading increased $11.6 million (1,386%) to $12.4 million during the year ended December 31, 2012 as compared to $837,000 for the year ended December 31, 2011 primarily as a result of an improvement in market prices related to the securities in this portfolio in September 2012. We were able to take advantage of this rally and sold nine securities-trading, for which we recognized realized net gains of $6.2 million during the three months ended September 30, 2012.

Operating Expenses

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

	Years Ended December 31,		
	2013	2012	2011
Operating expenses:			
Management fees – related party	$14,220	$18,512	$11,022
Equity compensation – related party	10,472	4,636	2,526
Rental operating expense	14,062	8,046	2,743
General and administrative - Corporate [1]	12,305	9,773	8,399
General and administrative - PCA [1]	3,805	—	—
Depreciation and amortization	3,855	5,885	4,619
Income tax (benefit) expense	(1,041)	14,602	12,036
Net impairment losses recognized in earnings	863	180	6,898
Provision for loan losses	3,020	16,818	13,896
Total operating expenses	$61,561	$78,452	$62,139

(1) Total general and administrative expense per the consolidated statements of income was $16.1 million, $9.8 million and $8.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

Management fees - related party decreased $4.3 million (23%) to $14.2 million for the year ended December 31, 2013 as compared to $18.5 million for the year ended December 31, 2012. This expense represents compensation in the form of base management fees and incentive management fees pursuant to our management agreement as well as fees to the manager of our structured note portfolio. The changes are described below:

- Incentive management fees to our Manager, which are based upon the excess of adjusted operating earnings, as defined in the management agreement, over a variable base rate, decreased $4.0 million (68%) to $1.9 million for the year ended December 31, 2013 from $6.0 million for the year ended December 31, 2012. The decrease in this fee was primarily the result of realized losses on the charge-off of assets in our CRE and Apidos portfolios. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter.
- Base management fees increased by $3.2 million (39%) to $11.6 million for the year ended December 31, 2013 as compared to $8.3 million for the year ended December 31, 2012. This increase was due to increased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of the receipt of $92.2 million of proceeds from the sales of common stock through our Dividend Reinvestment and Stock Purchase Plan, or DRIP, from January 1, 2012 through December 31, 2013 as well as the receipt of $55.6 million from the proceeds from our September 2012 secondary common stock offering and the receipt of $114.5 million from the proceeds of our April 2013 secondary common stock offering. In addition, we had two issuances of preferred stock. First, in June 2012 we sold $6.0 million 8.5% Series A cumulative preferred stock, or Series A preferred stock. Then in October 2012, we issued $24.2 million of 8.25% Series B cumulative preferred stock, or Series B preferred stock. We also entered into at-the-market sales agreements and sold $9.9 million of Series A and $35.6 million of Series B preferred stock through December 31, 2013, respectively.
- Incentive management fees related to our structured finance manager decreased by $4.1 million (96%) to $158,000 for the year ended December 31, 2013 as compared to $4.2 million for the year ended December 31, 2012. The decrease in fees is primarily related to the sale of 12 securities in September 2012, resulting in fewer assets earning

subordinated payments as well as the decrease in the remaining market value on these securities due to a downturn in the market for these types of assets during the year ended December 31, 2013 as compared to the year ended December 31, 2012.

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Equity compensation - related party increased $5.8 million (126%) to $10.5 million for the year ended December 31, 2013 as compared to $4.6 million for the year ended December 31, 2012. These expenses relate to the amortization of annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to employees of Resource America who provide investment management services to us through our Manager as well as employees through our recently acquired residential mortgage company subsidiary. The increase in expense was primarily the result of the issuance of new grants during 2013 and 2012 as well as the increase in our stock price and its impact on our quarterly remeasurement of the value of unvested stock of non-employees.

Rental operating expense increased $6.0 million (75%) to $14.1 million for the year ended December 31, 2013 as compared to $8.0 million for the year ended December 31, 2012 and is primarily related to having, in 2013, a full year operations of a hotel property we acquired by conversion of a loan to equity in September 2012. This hotel is held for sale at December 31, 2013.

General and administrative expense - Corporate increased $2.5 million (26%) to $12.3 million for the year ended December 31, 2013 as compared to $9.8 million million for the year ended December 31, 2012. The increase is primarily the result of the following combination of factors:

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

General and administrative expense - PCA was $3.8 million and is related to the acquisition of PCA, a mortgage origination business in October 2013.

Depreciation and amortization decreased $2.0 million (34%) to $3.9 million for the year ended December 31, 2013 as compared to $5.9 million for the year ended December 31, 2012. The decrease was the result of the reclassification as held-for-sale of one property in the third quarter of 2013. At the time of the reclassification, we ceased depreciation of the asset. In addition, amortization on our intangible assets decreased as a result of the liquidation of one of our related CLOs in January 2013 for which the majority of expense was recognized in December 2012 and as a result of the consolidation of a CLO which caused the amortization of the related intangible asset to be accelerated into the fourth quarter of 2012.

Income tax expense decreased $15.6 million (107%) to a benefit of $1.0 million for the year ended December 31, 2013 as compared to expense of $14.6 million for the year ended December 31, 2012. The decrease in income tax expense is primarily attributable to the liquidation of Apidos CLO VIII and Whitney CLO I beginning in September 2013 and October 2013, respectively. The liquidation caused acceleration of note discount and deferred debt amortization as well as accelerated interest expense on subordinated notes. In addition, we had fewer realized gains on sales in our trading portfolio during the year ended December 31, 2013 after selling 12 securities in September 2012 and realizing gains then.

Our provision for loan losses decreased $13.8 million (82%) to $3.0 million for the year ended December 31, 2013, as compared to $16.8 million for the year ended December 31, 2012. The following table summarizes the information relating our loan losses for the periods presented (in thousands):

	Years Ended December 31,	
	2013	2012
CRE loan portfolio	$2,686	$5,225
Bank loan portfolio	334	11,593
Total provision for loan losses	$3,020	$16,818

CRE Loan Portfolio Provision

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

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Bank Loan Portfolio Provision

The bank loan provision decreased by $11.3 million for the year ended December 31, 2013 to $334,000 as compared to $11.6 million for the year ended December 31, 2012. The principal reason for the decrease for the year ended December 31, 2013 was due to improved credit conditions as well as the sales and payoffs of five loans in the general reserve and two impaired loans that were sold and written off during the year ended December 31, 2013. All five loans had been reserved in prior periods.

Year Ended December 31, 2012 as compared to the Year Ended December 31, 2011

Management fees - related party increased $7.5 million (68%) to $18.5 million for the year ended December 31, 2012 as compared to $11.0 million for the year ended December 31, 2011. These expenses represent compensation in the form of base management fees and incentive management fees pursuant to our management agreement as well as fees to the manager of our structured note portfolio. The changes are described below:

- Incentive management fees to our Manager, which are based upon the excess of adjusted operating earnings over a variable base rate, increased $4.3 million (247%) to $6.0 million for the year ended December 31, 2012 from $1.7 million for the year ended December 31, 2011. The increase in these fees was primarily the result of gains on the extinguishment of debt for the year ended December 31, 2012 as well as fewer realized losses on the charge-off of assets in our CRE and Apidos portfolios. The incentive fee is calculated for each quarter and the calculation in any quarter is not affected by the results of any other quarter.
- Base management fees increased by $1.3 million (19%) to $8.3 million for the year ended December 31, 2012 as compared to $7.0 million for the year ended December 31, 2011. This increase was due to increased stockholders' equity, a component in the formula by which base management fees are calculated, primarily as a result of the receipt of $156.6 million of proceeds from the sales of common stock through our DRIP from January 1, 2011 through December 31, 2012 as well as the receipt of $46.6 million and $55.6 million from the proceeds of our March 2011 and September 2012 secondary common stock offerings and proceeds from our preferred stock offerings of $42.2 million, received in October 2012.
- Incentive management fees related to our structured finance manager increased by $1.9 million (83%) to $4.2 million for the year ended December 31, 2012 from $2.3 million for the year ended December 31, 2011. The increase in fees is primarily related to the improved economic performance of this portfolio during the year ended December 31, 2012, which is reflected in gain on investment securities, trading and preference payments on structured notes.

Equity compensation - related party increased $2.1 million (84%) to $4.6 million for the year ended December 31, 2012 as compared to $2.5 million for the year ended December 31, 2011. These expenses relate to the amortization of annual grants of restricted common stock to our non-employee independent directors, and annual and discretionary grants of restricted stock to employees of Resource America who provide investment management services to us through our Manager. The increase in expense was primarily the result of the issuance of new grants during 2012 and 2011.

Rental operating expense increased $5.3 million (193%) to $8.0 million for the year ended December 31, 2012 as compared to $2.7 million for the year ended December 31, 2011 and is related to an increase in our investments in real estate through several acquisitions beginning in June 2011 through September 2012.

General and administrative expense increased $1.4 million (16%) to $9.8 million for the year ended December 31, 2012 from $8.4 million for the year ended December 31, 2011. The increase is primarily the result of the following:

- an increase of $152,000 related to the payment to our board investment committee for their services. We resumed paying these fees in April 2012;
- an increase of $879,000 related to collateral management fees related to Apidos VIII paid to a third party. We began consolidating Apidos VIII in October 2011; and
- an increase of $327,000 related to franchise taxes because of increased profitability and equity in our taxable REIT subsidiaries.

Depreciation and amortization increased $1.3 million (27%) to $5.9 million for the year ended December 31, 2012 as compared to $4.6 million for the year ended December 31, 2011. The increase is related to our acquisition of real estate in the second and third quarters of 2011 and our acquisition of Resource Capital Asset Management, or RCAM, in February 2011, all of which were subject to a full year of depreciation and amortization in 2012.

Income tax expense increased $2.6 million (21%) to $14.6 million for the year ended December 31, 2012 as compared to $12.0 million for the year ended December 31, 2011. The increase in income tax expense is attributable to three of our legacy CLO structures (Apidos CDO III, Apidos Cinco CDO, and Apidos CLO VIII) and our new CLO structure (Whitney CLO I) being taxable during the fourth quarter of 2012. The balance of the increased tax expense is primarily due to foreclosure tax related to gains on properties sold during 2012 which did not recur in 2013.

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Net impairment losses recognized in earnings decreased $6.7 million (97%) to $180,000 for the year ended December 31, 2012 from $6.9 million for the year ended December 31, 2011. Impairment charges for the year ended December 31, 2011 were the result of $4.6 million of impairment we recognized on two investment securities available-for-sale due to their losses being recognized as other than temporary as a result of credit deterioration and $2.2 million of impairment on our investment in preferred stock and warrants in LCC upon recapitalization.
Our provision for loan and lease losses increased $2.9 million (21%) to $16.8 million for the year ended December 31, 2012, as compared to $13.9 million for the year ended December 31, 2011.
The following table summarizes information relating to our provision for loan and lease losses for the periods presented (in thousands):

	Years Ended December 31,	
	2012	2011
CRE loan portfolio	$5,225	$6,478
Bank loan portfolio	11,593	7,418
Total provision for loan losses	$16,818	$13,896

CRE Loan Portfolio
The principal reason for the decrease during the year ended December 31, 2012 as compared to the year ended December 31, 2011 was improved credit conditions for the borrowers in our CRE portfolio with the exception of three positions for which we took provisions. The positions had a total par value of $41.8 million and were written down to $37.3 million for a weighted average write down percentage of 10.9% of par.
Bank Loan Portfolio
The bank loan provision increased by $4.2 million for the year ended December 31, 2012 to $11.6 million as compared to $7.4 million for the year ended December 31, 2011. The principal reason for the increase was the recognition of impairment on four non-performing loans in our bank loan portfolio for the year ended December 31, 2012 as a result of new defaults and an increase in our general reserve related primarily to the acquisition of our new CLO, Whitney CLO I.
Other Revenue (Expense)
The following table sets forth information relating to our other income (expense) incurred for the periods presented (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Other Revenue (Expense)			
Gain on consolidation	$—	$2,498	$—
Gain on the extinguishment of debt	—	16,699	3,875
Gain on sale of real estate	16,616	—	—
Other income (expense)	391	—	(6)
Total other revenue	$17,007	$19,197	$3,869

Year Ended December 31, 2013 as compared to Year Ended December 31, 2012
Gain on consolidation of $2.5 million during the year ended December 31, 2012 is related to the consolidation of Whitney CLO I as a result of our acquisition of a controlling financial interest where the net fair value of the assets acquired exceeded our purchase price.
Gain on the extinguishment of debt during the year ended December 31, 2012 of $17.0 million is from the repurchase of a portion of the debt issued by RREF CDO 2006-1, RREF CDO 2007-1 and Apidos CDO I at discounts during the period. The notes, issued at par, were bought back as an investment by us at a weighted average price of 88.7%.
The gain on the sale of real estate is related to the sale of a multi-family apartment building. During the three months ended June 30, 2013, we entered into a listing agreement for this property. The sale settled on September 30, 2013 for a gain of $16.6 million.

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Year Ended December 31, 2012 as compared to Year Ended December 31, 2011

Gain on consolidation of $2.5 million is related to the consolidation of Whitney CLO I as a result of our acquisition of a controlling financial interest where the net fair value of the assets acquired exceeded our purchase price.

Gain on the extinguishment of debt was $16.7 million for the year ended December 31, 2012 and is due to the repurchase of a portion of the debt issued by RREF CDO 2006-1, RREF CDO 2007-1 and Apidos CDO I during the period. The notes, issued at par, were bought back as an investment by us at a weighted average price of 88.7%. Gain on the extinguishment of debt was $3.9 million for the year ended December 31, 2011 due to the repurchase of a portion of the debt issued by RREF CDO 2006-1 and RREF CDO 2007-1 during the period. The notes, issued at par, were bought back as an investment by us at a weighted average price of 61.3%.

Financial Condition

Summary.

Our total assets at December 31, 2013 were $2.2 billion as compared to $2.5 billion at December 31, 2012. The decrease in total assets was principally due to the liquidation of Apidos CLO VIII and Whitney CLO I and consequent liquidation of their assets, partially offset by an increase in CRE and CMBS investments.

Investment Portfolio.

The table below summarizes the amortized cost and net carrying amount of our investment portfolio as of December 31, 2013 and 2012, classified by interest rate type. The following table includes both (i) the amortized cost of our investment portfolio and the related dollar price, which is computed by dividing amortized cost by par amount, and (ii) the net carrying amount of our investment portfolio and the related dollar price, which is computed by dividing the net carrying amount by par amount (in thousands, except percentages):

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	Amortized cost	Dollar price	Net carrying amount	Dollar price	Net carrying amount less amortized cost	Dollar price
December 31, 2013						
Floating rate						
RMBS	$1,919	20.76 %	$451	4.88 %	$(1,468)	(15.88)%
CMBS-private placement	27,138	92.39 %	16,496	56.16 %	(10,642)	(36.23)%
Structured notes	8,057	34.49 %	11,107	47.55 %	3,050	13.06 %
Mezzanine loans [(1)]	12,455	98.97 %	12,455	98.97 %	—	— %
Whole loans [(1)]	745,789	99.56 %	736,106	98.27 %	(9,683)	(1.29)%
Bank loans [(2)]	544,923	99.27 %	541,532	98.65 %	(3,391)	(0.62)%
Middle-market loans	10,250	100.00 %	10,250	100.00 %	—	— %
Loans held for sale [(3)]	6,850	94.82 %	6,850	94.82 %	—	— %
ABS Securities	25,406	91.39 %	26,656	95.88 %	1,250	4.50 %
Corporate bonds	2,517	29.32 %	2,463	28.69 %	(54)	(0.63)%
Total floating rate	1,385,304	96.71 %	1,364,366	95.25 %	(20,938)	(1.46)%
Fixed rate						
CMBS-private placement	158,040	77.87 %	164,222	80.91 %	6,182	3.04 %
CMBS-linked transactions	35,736	106.07 %	30,066	89.24 %	(5,670)	(16.83)%
B notes [(1)]	16,205	99.49 %	16,031	98.42 %	(174)	(1.07)%
Mezzanine loans [(1)]	51,862	100.06 %	51,303	98.98 %	(559)	(1.08)%
Residential mortgage loans	1,849	66.27 %	1,849	66.27 %	—	— %
Loans held for sale [(3)]	15,066	100.00 %	15,066	100.00 %	—	— %
Loans receivable-related party	6,966	100.00 %	6,966	100.00 %	—	— %
Total fixed rate	285,724	86.69 %	285,503	86.62 %	(221)	(0.07)%
Other (non-interest bearing)						
Investment in real estate	29,778	100.00 %	29,778	100.00 %	—	— %
Property available-for-sale	25,346	100.00 %	25,346	100.00 %	—	— %
Investment in unconsolidated entities	74,438	100.00 %	74,438	100.00 %	—	— %
Total other	129,562	100.00 %	129,562	100.00 %	—	— %
Grand total	$1,800,590	95.19 %	$1,779,431	94.07 %	$(21,159)	(1.12)%

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	Amortized cost	Dollar price	Net carrying amount	Dollar price	Net carrying amount less amortized cost	Dollar price
December 31, 2012						
Floating rate						
RMBS	$6,047	36.14 %	$5,564	33.25 %	$(483)	(2.89)%
CMBS-private placement	28,147	100.00 %	12,814	45.52 %	(15,333)	(54.48)%
Structured notes	9,413	26.67 %	19,279	54.62 %	9,866	27.95 %
Other ABS	—	— %	23	0.27 %	23	0.27 %
Mezzanine loans (1)	15,845	99.95 %	15,644	98.68 %	(201)	(1.27)%
Whole loans (1)	533,938	99.64 %	527,018	98.35 %	(6,920)	(1.29)%
Bank loans (2)	1,178,420	97.09 %	1,168,715	97.08 %	(9,705)	(0.01)%
Loans held for sale (3)	48,894	92.42 %	48,894	92.38 %	—	(0.04)%
ABS Securities	25,885	89.20 %	26,470	91.21 %	585	2.02 %
Corporate bonds	34,361	101.80 %	34,282	101.57 %	(79)	(0.23)%
Total floating rate	1,880,950	95.98 %	1,858,703	94.85 %	(22,247)	(1.13)%
Fixed rate						
CMBS-private placement	154,681	68.14 %	158,001	69.61 %	3,320	1.47 %
CMBS-linked transactions	6,677	111.39 %	6,835	114.03 %	158	2.64 %
B notes (1)	16,327	99.30 %	16,121	98.05 %	(206)	(1.25)%
Mezzanine loans (1)	66,941	99.70 %	66,282	98.73 %	(659)	(0.97)%
Loans receivable-related party	8,324	100.00 %	8,324	100.00 %	—	— %
Total fixed rate	252,950	77.23 %	255,563	78.00 %	2,613	0.77 %
Other (non-interest bearing)						
Investment in real estate	75,386	100.00 %	75,386	100.00 %	—	— %
Investment in unconsolidated entities	45,413	100.00 %	45,413	100.00 %	—	— %
Total other	120,799	100.00 %	120,799	100.00 %	—	— %
Grand total	$2,254,699	93.70 %	$2,235,065	92.87 %	$(19,634)	(0.83)%

(1) Net carrying amount includes allowance for loan losses of $10.4 million at December 31, 2013, allocated as follows: B notes $174,000, mezzanine loans $559,000 and whole loans $9.7 million. Net carrying amount includes allowance for loan losses of $8.0 million at December 31, 2012, allocated as follows: B notes $206,000, mezzanine loans $860,000 and whole loans $6.9 million.

(2) Net carrying amount includes allowance for loan losses of $3.4 million and $9.7 million at December 31, 2013 and 2012, respectively.

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

Commercial Mortgage-Backed Securities-Private Placement. In the aggregate, we purchased our CMBS-private placement portfolio at a net discount. At December 31, 2013 and 2012, the remaining discount to be accreted into income over the remaining lives of the securities was $7.2 million and $9.3 million, respectively. At December 31, 2013 and 2012, the remaining premium to be amortized into income over the remaining lives of the securities was $645,000 and $2.0 million, respectively. These securities are classified as available-for-sale and, as a result, are carried at their fair value.

During the years ended December 31, 2013, 2012 and 2011, we recognize other-than-temporary impairment losses of $328,000, $42,000 and $4.6 million respectively, on positions that supported our CMBS investments. Securities classified as available-for-sale have increased on a net basis as of December 31, 2013 as compared to December 31, 2012 primarily due to new purchases in 2013. We perform an on-going review of third-party reports and updated financial data on the underlying property financial information to analyze current and projected loan performance. Rating agency downgrades are considered with respect to our income approach when determining other-than-temporary impairment and, when inputs are stressed, the resulting projected cash flows reflect a full recovery of principal.

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

	December 31, 2012	Net Purchases	Upgrades/Downgrades	MTM Change/ Paydowns Same Ratings	December 31, 2013
Moody's Ratings Category:					
Aaa	$66,830	$23,664	$ —	$(40,657)	$49,837
Aa1 through Aa3	4,926	—	—	430	5,356
A1 through A3	8,944	5,421	2,354	(2,108)	14,611
Baa1 through Baa3	44,624	4,108	5,216	(15,237)	38,711
Ba1 through Ba3	3,737	6,812	(10,147)	13,336	13,738
B1 through B3	7,315	4,238	(3,150)	4,978	13,381
Caa1 through Caa3	8,052	5,621	—	1,071	14,744
Ca through C	8,168	—	2,765	(2,319)	8,614
Non-Rated	18,219	6,297	—	(2,790)	21,726
Total	$170,815	$56,161	$ (2,962)	$(43,296)	$180,718
S&P Ratings Category:					
AAA	$52,640	$29,889	$ —	$(29,290)	$53,239
A+ through A-	7,433	—	—	566	7,999
BBB+ through BBB-	13,248	—	—	1,055	14,303
BB+ through BB-	31,691	9,261	—	(8,157)	32,795
B+ through B-	15,963	16,672	(6,720)	7,247	33,162
CCC+ through CCC-	8,959	—	—	3,217	12,176
D	1,150	—	—	830	1,980
Non-Rated	39,731	680	—	(15,347)	25,064
Total	$170,815	$56,502	$ (6,720)	$(39,879)	$180,718

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2013:				
Structured notes	$8,057	$4,050	$(1,000)	$11,107
RMBS	1,919	—	(1,468)	451
Total	$9,976	$4,050	$(2,468)	$11,558
December 31, 2012:				
Structured notes	$9,413	$10,894	$(1,028)	$19,279
RMBS	6,047	858	(1,341)	5,564
Total	$15,460	$11,752	$(2,369)	$24,843

We purchased four securities and sold nine securities during the year ended December 31, 2013, for a net realized gain of $7.5 million. We held eight and 13 investment securities, trading as of December 31, 2013 and 2012, respectively. We purchased two securities and sold 15 securities during the year ended December 31, 2012, for a net realized gain of $5.5 million. We also had one position liquidate during the year ended December 31, 2012 which resulted in a gain of $224,000.

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

Description	Quantity	Amortized Cost	Contracted Interest Rates	Maturity Dates (3)
December 31, 2013:				
Whole loans, floating rate (1) (4) (5)	52	$745,789	LIBOR plus 2.68% to LIBOR plus 12.14%	March 2014 to February 2019
B notes, fixed rate	1	16,205	8.68%	April 2016
Mezzanine loans, floating rate	1	12,455	LIBOR plus 13.53%	April 2016
Mezzanine loans, fixed rate (7)	3	51,862	0.50% to 18.72%	September 2014 to September 2019
Total (2)	57	$826,311		
December 31, 2012:				
Whole loans, floating rate (1) (4) (6)	37	$567,938	LIBOR plus 2.50% to LIBOR plus 5.50%	June 2013 to February 2019
B notes, fixed rate	1	16,327	8.68%	April 2016
Mezzanine loans, floating rate	2	15,845	LIBOR plus 2.50% to LIBOR plus 7.45%	August 2013 to December 2013
Mezzanine loans, fixed rate (7)	3	66,941	0.50% to 20.00%	September 2014 to September 2019
Total (2)	43	$667,051		

(1) Whole loans had $13.7 million and $8.9 million in unfunded loan commitments as of December 31, 2013 and 2012, respectively. These unfunded commitments are advanced as the borrowers formally request additional funding as permitted under the loan agreement and any necessary approvals have been obtained.

(2) The total does not include an allowance for loan loss of $10.4 million and $8.0 million as of December 31, 2013 and 2012, respectively.

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

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(4) Floating rate whole loans include a combined $11.4 million mezzanine component of two whole loans, which have a fixed rate of 12.0% as of December 31, 2013, and includes a $2.0 million mezzanine component of a whole loan that has a fixed rate of 15.0% at December 31, 2012.

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

(6) Amount includes $34.0 million from two whole loans that are classified as loans held for sale at December 31, 2012.

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

Bank Loans. At December 31, 2013, our consolidated securitizations, Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CDO VIII and Whitney CLO I, held a total of $552.7 million of bank loans at fair value. The bank loans held by these entities secure the CDO notes they issued and are not available to satisfy the claims of our creditors. The aggregate fair value of bank loans held decreased by $649.5 million over their holdings at December 31, 2012. This decrease was primarily due to the liquidation of Apidos CDO VIII and Whitney CLO during the year ended December 31, 2013.

We have determined that Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CDO VIII and Whitney CLO I are variable interest entities, or VIEs, and that we are the primary beneficiary of each. As of December 31, 2013, Apidos CDO I, Apidos CDO III, Apidos Cinco CDO, Apidos CLO VIII and Whitney CLO I were consolidated. We own 100% of the equity of Apidos CDO I, Apidos CDO III and Apidos CDO Cinco. We own approximately 43% of the equity of Apidos CLO VIII and 68.3% of the equity of Whitney CLO I. In September 2013, we liquidated Whitney CLO I, and as a result substantially all of the assets were sold. Total proceeds from the sale of these assets, plus proceeds from previous sales and paydowns in the CLO were used to pay down the remaining balance on the outstanding notes of $103.7 million. In October 2013, we liquidated Apidos CLO VIII, and as a result all of the assets were sold. Total proceeds from the sale of these assets, plus proceeds from previous sales and paydowns in the CLO were used to pay down the remaining balance on the outstanding notes of $317.6 million.

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

	December 31, 2013		December 31, 2012	
	Amortized cost	Fair Value (1)	Amortized cost	Fair Value (1)
Moody’s ratings category:				
Baa1 through Baa3	$10,885	$10,936	$41,831	$42,337
Ba1 through Ba3	263,589	265,945	645,502	655,039
B1 through B3	216,995	217,517	443,775	449,232
Caa1 through Caa3	24,224	22,702	27,523	23,869
Ca	667	332	6,819	3,582
No rating provided	35,413	35,277	27,864	28,154
Total	$551,773	$552,709	$1,193,314	$1,202,213
S&P ratings category:				
BBB+ through BBB-	$46,201	$46,562	$128,072	$129,648
BB+ through BB-	224,246	224,442	483,091	490,823
B+ through B-	228,707	231,135	529,331	535,632
CCC+ through CCC-	15,059	14,838	28,567	25,522
CC+ through CC-	—	—	2,831	1,451
C+ through C-	—	—	—	—
D	2,251	723	2,021	1,237
No rating provided	35,309	35,009	19,401	17,900
Total	$551,773	$552,709	$1,193,314	$1,202,213

Weighted average rating factor	1,936	1,974

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

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

	Amortized Cost					
	Apidos I	Apidos III	Apidos Cinco	Apidos VIII	Whitney CLO I	Total
December 31, 2013:						
Loans held for investment:						
First lien loans	$79,483	$126,890	$296,368	$72	$21,724	$524,537
Second lien loans	—	—	1,139	—	7,805	8,944
Third lien loans	3,020	2,475	2,463	—	—	7,958
Defaulted first lien loans	1,206	1,124	486	—	—	2,816
Defaulted second lien loans	334	334	—	—	—	668
Total	84,043	130,823	300,456	72	29,529	544,923
First lien loans held for sale at fair value	537	651	1,189	—	4,473	6,850
Total	$84,580	$131,474	$301,645	$72	$34,002	$551,773
December 31, 2012:						
Loans held for investment:						
First lien loans	$174,208	$206,960	$298,885	$321,022	$147,791	$1,148,866
Second lien loans	3,559	3,237	8,306	9,035	729	24,866
Subordinated second lien loans	2,207	1,200	615	—	—	4,022
Defaulted first lien loans	333	333	—	—	—	666
Total	180,307	211,730	307,806	330,057	148,520	1,178,420
First lien loans held for sale at fair value	2,671	2,770	3,657	5,796	—	14,894
Total	$182,978	$214,500	$311,463	$335,853	$148,520	$1,193,314

Asset-backed securities. In November 2011, the investment securities held-to-maturity portfolio was reclassified to investment securities available-for-sale since management no longer intended to hold these positions until maturity. These investments are now held at fair value with any unrealized gain or loss reported in the stockholder's equity section of the balance sheet. At December 31, 2013, we held a total of $26.7 million of ABS at fair value through Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, all of which secure the debt issued by these entities. At December 31, 2012, we held a total of $26.5 million fair value of ABS through Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, all of which secure the debt issued by these entities. The increase in total ABS was due to a purchase which was partially offset by a sale during the year ended December 31, 2013.

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

	December 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Moody's ratings category:				
Aaa	$4,650	$5,058	$5,856	$6,416
Aa1 through Aa3	8,097	7,469	1,086	1,192
A1 through A3	1,263	3,801	6,590	7,116
Baa1 through Baa3	2,737	2,736	2,790	3,108
Ba1 through Ba3	8,021	6,981	5,115	4,614
B1 through B3	638	611	3,618	3,140
Caa1 through Caa3	—	—	—	—
No rating provided	—	—	830	884
Total	$25,406	$26,656	$25,885	$26,470
S&P ratings category:				
AA+ through AA-	$8,030	$7,259	$6,943	$7,608
A+ through A-	5,107	8,094	6,539	7,319
BBB+ through BBB-	—	—	300	327
BB+ through BB-	4,868	4,019	7,518	7,054
B+ through B-	1,577	1,578	1,545	1,510
CCC+ through CCC-	—	—	—	—
No rating provided	5,824	5,706	3,040	2,652
Total	$25,406	$26,656	$25,885	$26,470
Weighted average rating factor	416		642	

Corporate bonds. At December 31, 2013, our consolidated securitization, Apidos Cinco CDO, held a total of $2.5 million of corporate bonds at fair value, which secure the debt issued by this entity. These investments are held at fair value with any unrealized gain or loss reported in the stockholder's equity section of the balance sheet. The aggregate fair value of corporate bonds held decreased by $31.8 million over those held at December 31, 2012. This decrease was primarily due to the sale of our bonds in Whitney CLO I and Apidos CDO VIII which were called and liquidated during the year.

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

	December 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Moody’s ratings category:				
Aaa	$—	$—	$4,345	$4,359
Aa1 through Aa3	—	—	2,068	2,063
A1 through A3	—	—	5,606	5,582
Baa1 through Baa3	—	—	721	707
Ba1 through Ba3	—	—	4,491	4,445
B1 through B3	—	—	9,271	9,296
Caa1 through Caa3	2,441	1,598	80	81
No rating provided	932	865	7,779	7,749
Total	$3,373	$2,463	$34,361	$34,282
S&P ratings category:				
AAA	$—	$—	$4,345	$4,359
AA+ through AA-	—	—	2,068	2,063
A+ through A-	—	—	3,144	3,110
BBB+ through BBB-	—	—	1,239	1,227
BB+ through BB-	—	—	1,414	1,407
B+ through B-	869	873	14,844	14,823
CCC+ through CCC-	2,504	1,590	80	81
No rating provided	—	—	7,227	7,212
Total	$3,373	$2,463	$34,361	$34,282
Weighted average rating factor	6,500		1,080	

Investment in Unconsolidated Entities. In May, June and July 2013, we invested $15.0 million into a limited partnership agreement with CVC Global Credit Opportunities Fund, L.P., or the Partnership, a Delaware limited partnership which generally invests in assets through a master-feeder fund structure, or the Master Fund. The General Partner of the Partnership and the Master Fund is CVC Global Credit Opportunities Fund GP, LLC, a Delaware limited liability company. The investment manager of the partnership and the Master Fund is CVC Credit Partners, LLC. CVC Capital Partners SICAV-FIS, S.A., a Luxembourg company, together with its affiliates, and Resource America, own a majority and a significant minority, respectively, of the investment manager. The fund will pay the investment manager a quarterly management fee in advance calculated at the rate of 1.5% annually based on the balance of each limited partner's capital account. Our management fee was waived upon entering the agreement given that we are a related party of CVC Credit Partners, LLC. For the year ended December 31, 2013, we recorded earnings of $1.2 million, which was recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statements of income statement. The Company's investment balance of $16.2 million at December 31, 2013 is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method.

In January 2013, LTCC, one of our wholly-owned subsidiaries, invested $2.0 million into LCF for the purpose of originating and acquiring life settlement contracts. Using the equity method, we recognized a loss of $470,000 during the year ended December 31, 2013, which was recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statement of income. Our investment in LCF was $1.5 million at December 31, 2013 and is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method.

On June 19, 2012, we entered into a joint venture with Värde Investment Partners, LP acting as lender, to purchase two condominium developments. We purchased a 7.5% equity interest in the venture. RREM, was appointed as the asset manager of the venture to perform lease review and approval, debt service collection, loan workout, foreclosure, disposition and permitting, as applicable. RREM is also responsible for engaging third parties to perform day-to-day property management, property leasing, rent collection, maintenance, and capital improvements. RREM receives an annual asset management fee equal to 1% of outstanding contributions. For the years ended December 31, 2013 and 2012, we paid RREM management fees of $38,000 and $39,000, respectively. For the years ended December 31, 2013 and 2012, we recorded income of $148,000 and losses of $135,000, respectively, which were recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statement of income. The investment balance of $674,000 and $526,000 at December 31, 2013 and 2012, respectively, is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method.

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On November 16, 2011, we, together with LEAF Financial and LCC, a commercial finance company specializing in equipment leasing formed in January 2011, each of which is a subsidiary of Resource America, entered into a SPA with Eos Partners, L.P., or Eos, a private investment firm, and its affiliates Eos. Our resulting interest is accounted for under the equity method. We recorded losses of $183,000 and $3.3 million for the years ended December 31, 2013 and 2012, respectively, which was recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statement of income. No such loss was recorded at December 31, 2011. Our investment in LCC was valued at $41.0 million and $33.1 million as of December 31, 2013 and 2012, respectively, and is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method.

On December 1, 2009, we purchased a membership interest in RRE VIP Borrower, LLC (an unconsolidated VIE that holds our interests in a real estate joint venture) from Resource America at book value. RREM, an affiliate of Resource America, acts as asset manager of the venture and receives a monthly asset management fee equal to 1% of the combined investment calculated as of the last calendar day of the month. For the years ended December 31, 2013, 2012 and 2011, we paid RREM management fees of $28,000, $45,000 and $55,000 respectively. For the years ended December 31, 2013, 2012 and 2011, we recorded income of $278,000, $683,000 and $112,000, respectively, which was recorded in equity in net earnings (losses) of unconsolidated subsidiaries on the consolidated statement of income. The investment balance of zero and $2.3 million at December 31, 2013 and 2012, respectively, is recorded as an investment in unconsolidated entities on our consolidated balance sheet using the equity method.

We have a 100% interest valued at $1.5 million in the common shares (3% of the total equity) in two trusts, RCT I and RCT II. We record our investments in RCT I and RCT II's common shares of $774,000 each as investments in unconsolidated trusts using the cost method and record dividend income upon declaration by RCT I and RCT II. For the years ended December 31, 2013, 2012, and 2011, we recognized $2.4 million, $2.5 million and $3.3 million, respectively, of interest expense with respect to the subordinated debentures it issued to RCT I and RCT II which included $191,000, $183,000 and $277,000, respectively, of amortization of deferred debt issuance costs.

Financing Receivables

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

	Commercial Real Estate Loans	Bank Loans	Residential Mortgage Loans	Loans Receivable-Related Party	Total
December 31, 2013:					
Allowance for Loan Losses:					
Allowance for losses at January 1, 2013	$7,986	$9,705	$—	$ —	$17,691
Provision for loan loss	2,686	334	—	—	3,020
Loans charged-off	(256)	(6,648)	—	—	(6,904)
Allowance for losses at December 31, 2013	$10,416	$3,391	$—	$ —	$13,807
Ending balance:					
Individually evaluated for impairment	$4,572	$2,621	$—	$ —	$7,193
Collectively evaluated for impairment	$5,844	$770	$—	$ —	$6,614
Loans acquired with deteriorated credit quality	$—	$—	$—	$ —	$—
Loans:					
Ending balance:					
Individually evaluated for impairment	$194,403	$3,554	$—	$ 6,966	$204,923
Collectively evaluated for impairment	$631,908	$548,219	$16,915	$ —	$1,197,042
Loans acquired with deteriorated credit quality	$—	$—	$—	$ —	$—
December 31, 2012:					
Allowance for Loan Losses:					

Allowance for losses at January 1, 2012	$24,221	$3,297	$—	$ —	$27,518
Provision for loan loss	5,225	11,593	—	—	16,818
Loans charged-off	(21,460)	(5,185)	—	—	(26,645)
Allowance for losses at December 31, 2012	$7,986	$9,705	$—	$ —	$17,691
Ending balance:					
Individually evaluated for impairment	$2,142	$3,236	$—	$ —	$5,378
Collectively evaluated for impairment	$5,844	$6,469	$—	$ —	$12,313
Loans acquired with deteriorated credit quality	$—	$—	$—	$ —	$—
Loans:					
Ending balance:					
Individually evaluated for impairment	$177,055	$4,689	$—	$ 8,324	$190,068
Collectively evaluated for impairment	$489,996	$1,187,874	$—	$ —	$1,677,870
Loans acquired with deteriorated credit quality	$—	$751	$—	$ —	$751

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Credit quality indicators

Bank Loans

We use a risk grading matrix to assign grades to bank loans. Loans are graded at inception and updates to assigned grades are made continually as new information is received. Loans are graded on a scale of 1-5 with 1 representing our highest rating and 5 representing our lowest rating. We consider such things as performance of the underlying company, liquidity, collectability of interest, enterprise valuation, default probability, ratings from rating agencies, and industry dynamics.

Credit risk profiles of bank loans were as follows (in thousands):

	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Held for Sale	Total
As of December 31, 2013:							
Bank loans	$477,754	$42,476	$18,806	$2,333	$3,554	$6,850	$551,773
As of December 31, 2012:							
Bank loans	$1,095,148	$33,677	$27,837	$16,318	$5,440	$14,894	$1,193,314

All of our bank loans are performing with the exception of three loans with an amortized cost of $3.6 million as of December 31, 2013, one of which defaulted in 2012, one of which defaulted as of March 31, 2013 and one of which defaulted as of June 30, 2013. As of December 31, 2012, all of our bank loans were performing with the exception of five loans with an amortized cost of $5.4 million, one of which defaulted as of December 31, 2012, three of which defaulted as of March 31, 2012, (including a loan acquired with deteriorated credit quality as a result of the acquisition of Whitney CLO I) and one of which defaulted as of December 31, 2011.

Commercial Real Estate Loans

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

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

	Rating 1	Rating 2	Rating 3	Rating 4	Held for Sale	Total
As of December 31, 2013:						
Whole loans	$680,718	$32,500	$32,571	$—	$—	$745,789
B notes	16,205	—	—	—	—	16,205
Mezzanine loans	51,862	12,455	—	—	—	64,317
	$748,785	$44,955	$32,571	$—	$—	$826,311
As of December 31, 2012:						
Whole loans	$427,456	$—	$106,482	$—	$34,000	$567,938
B notes	16,327	—	—	—	—	16,327
Mezzanine loans	38,296	—	44,490	—	—	82,786
	$482,079	$—	$150,972	$—	$34,000	$667,051

All of our commercial real estate loans were performing as of December 31, 2013 and 2012.

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Residential Mortgage Loans

Residential mortgage loans are reviewed periodically for collectability in light of historical experience, the nature and amount of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing underlying conditions. The Company also designates loans that are sold after the period end as held for sale at the lower of their fair market value or cost.

Loan Portfolios Aging Analysis

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

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
December 31, 2013:							
Whole loans	$—	$—	$—	$—	$745,789	$745,789	$—
B notes	—	—	—	—	16,205	16,205	—
Mezzanine loans	—	—	—	—	64,317	64,317	—
Bank loans	—	—	3,554	3,554	548,219	551,773	—
Residential mortgage loans	234	91	268	593	16,322	16,915	—
Loans receivable- related party	—	—	—	—	6,966	6,966	—
Total loans	$234	$91	$3,822	$4,147	$1,397,818	$1,401,965	$—
December 31, 2012:							
Whole loans	$—	$—	$—	$—	$567,938	$567,938	$—
B notes	—	—	—	—	16,327	16,327	—
Mezzanine loans	—	—	—	—	82,786	82,786	—
Bank loans	1,549	—	3,891	5,440	1,187,874	1,193,314	—
Loans receivable- related party	—	—	—	—	8,324	8,324	—
Total loans	$1,549	$—	$3,891	$5,440	$1,863,249	$1,868,689	$—

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Impaired Loans
The following tables show impaired loans indicated (in thousands):

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2013:					
Loans without a specific valuation allowance:					
Whole loans	$130,759	$137,959	$—	$123,495	$8,439
B notes	$—	$—	$—	$—	$—
Mezzanine loans	$38,072	$38,072	$—	$38,072	$1,615
Bank loans	$—	$—	$—	$—	$—
Residential mortgage loans	$315	$268	$—	$—	$—
Loans receivable - related party	$5,733	$5,733	$—	$—	$—
Loans with a specific valuation allowance:					
Whole loans	$25,572	$25,572	$(4,572)	$24,748	$1,622
B notes	$—	$—	$—	$—	$—
Mezzanine loans	$—	$—	$—	$—	$—
Bank loans	$3,554	$3,554	$(2,621)	$—	$—
Residential mortgage loans	$—	$—	$—	$—	$—
Loans receivable - related party	$—	$—	$—	$—	$—
Total:					
Whole loans	$156,331	$163,531	$(4,572)	$148,243	$10,061
B notes	—	—	—	—	—
Mezzanine loans	38,072	38,072	—	38,072	1,615
Bank loans	3,554	3,554	(2,621)	—	—
Residential mortgage loans	315	268	—	—	—
Loans receivable - related party	5,733	5,733	—	—	—
	$204,005	$211,158	$(7,193)	$186,315	$11,676
December 31, 2012:					
Loans without a specific valuation allowance:					
Whole loans	$115,841	$115,841	$—	$114,682	$3,436
B notes	$—	$—	$—	$—	$—
Mezzanine loans	$38,072	$38,072	$—	$38,072	$367
Bank loans	$—	$—	$—	$—	$—
Loans receivable - related party	$6,754	$6,754	$—	$—	$851
Loans with a specific valuation allowance:					
Whole loans	$23,142	$23,142	$(2,142)	$22,576	$801
B notes	$—	$—	$—	$—	$—
Mezzanine loans	$—	$—	$—	$—	$—
Bank loans	$5,440	$5,440	$(3,236)	$—	$—
Loans receivable - related party	$—	$—	$—	$—	$—
Total:					
Whole loans	$138,983	$138,983	$(2,142)	$137,258	$4,237
B notes	—	—	—	—	—

Mezzanine loans	38,072	38,072	—	38,072	367
Bank loans	5,440	5,440	(3,236)	—	—
Loans receivable - related party	6,754	6,754	—	—	851
	$189,249	$189,249	$(5,378)	$175,330	$5,455

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Troubled-Debt Restructurings

The following tables show troubled-debt restructurings in our loan portfolio (in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Year Ended December 31, 2013:			
Whole loans	5	$143,484	$147,826
B notes	—	—	—
Mezzanine loans	—	—	—
Bank loans	—	—	—
Residential mortgage loans	—	—	—
Loans receivable - related party	1	6,592	6,592
Total loans	6	$150,076	$154,418
Year Ended December 31, 2012:			
Whole loans	6	$143,261	$126,946
B notes	—	—	—
Mezzanine loans	1	38,072	38,072
Bank loans	—	—	—
Loans receivable - related party	1	7,797	7,797
Total loans	8	$189,130	$172,815

As of December 31, 2013 and 2012, there were no troubled-debt restructurings that subsequently defaulted.

Investments in Real Estate

The table below summarizes our investments in real estate (in thousands, except number of properties):

	December 31, 2013		December 31, 2012	
	Book Value	Number of Properties	Book Value	Number of Properties
Multi-family property	$22,107	1	$42,179	2
Office property	10,273	1	10,149	1
Hotel property	—	—	25,608	1
Subtotal	32,380		77,936	
Less: Accumulated depreciation	(2,602)		(2,550)	
Investments in real estate	$29,778		$75,386	

During the year ended December 31, 2013, we made no acquisitions and sold one of our multi-family properties. The gain from the sale of this property is recorded on the statement of income in gain on sale of real estate. We also confirmed the intent and ability to sell one of our investments in real estate. This asset has been reclassified to property available-for-sale on the balance sheet at December 31, 2013.

During the year ended December 31, 2012, we foreclosed on one self-originated loan and converted the loan to equity with a fair value of $25.5 million at acquisition. The loan was collateralized by a 179 unit hotel property in Coconut Grove, Florida. The property had a hotel occupancy rate of 75% at acquisition.

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We made no acquisitions during the year ended December 31, 2013. The following table is a summary of the aggregate estimated fair value of the assets and liabilities acquired on the respective date of acquisition during the year ended December 31, 2012 (in thousands):

Description	December 31, 2012
Assets acquired:	
Investments in real estate	$25,500
Other assets	(89)
Total assets acquired	25,411
Liabilities assumed:	
Accounts payable and other liabilities	3,750
Total liabilities assumed	3,750
Estimated fair value of net assets acquired	$21,661

Restricted cash. At December 31, 2013, we had restricted cash of $63.3 million, which consisted of $61.4 million of restricted cash on our eight securitizations, $771,000 held in a margin account related to our swap portfolio, $847,000 held in restricted accounts at our investment properties and $318,000 held primarily in a pledged account at our subsidiary, PCA. At December 31, 2012, we had restricted cash of $94.1 million, which consisted of $90.0 million of restricted cash on our seven CDOs, $500,000 held in a margin account related to our swap portfolio and $3.6 million held in restricted accounts at our real estate assets. The decrease of $30.8 million is primarily related to new loan settlements in our CDOs, which were a result of the use of restricted cash available for reinvestment prior to the expiration of the reinvestment period for four of our CDOs, Apidos CDO I, Apidos CDO III, RREF CDO 2006-1 and RREF CDO 2007-1. Any subsequent loan paydown proceeds in these CDOs are now used to repay the notes outstanding as stipulated in the indenture.

Interest Receivable. At December 31, 2013, we had interest receivable of $9.0 million, which consisted of $9.0 million of interest on our securities and loans and $6,000 of interest earned on escrow and sweep accounts. At December 31, 2012, we had interest receivable of $7.8 million, which consisted of $7.8 million of interest on our securities and loans and $6,000 of interest earned on escrow and sweep accounts. The increase resulted from an increase in interest receivable on mezzanine loans of $2.7 million, partially offset by a decrease of $1.1 million in interest receivable on bank loans and a decrease of $500,000 in interest receivable on structured notes due to the increase in CRE loan and holdings and decreases in our structured notes and bank loan holdings.

Prepaid Expenses. The following table summarizes our prepaid expenses as of December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
Prepaid taxes	$2,004	$9,546
Prepaid insurance	281	425
Other prepaid expenses	586	425
Total	$2,871	$10,396

Prepaid expenses decreased $7.5 million to $2.9 million as of December 31, 2013 from $10.4 million as of December 31, 2012. The decrease resulted primarily from a decrease of $7.5 million in prepaid taxes offset partially by an increase of $161,000 in other prepaid expenses.

Other Assets. The following table summarizes our other assets as of December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
Management fees receivable	$970	$1,253
Other receivables	858	1,542
Preferred stock proceeds receivable	207	1,248
Fixed assets - non-real estate	1,069	66
Investment in life settlement contracts	1,107	—

Other assets	6,515	—
Total	$10,726	$4,109

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Other assets increased $6.6 million to $10.7 million as of December 31, 2013 from $4.1 million as of December 31, 2012. This increase resulted primarily from the acquisition of PCA which included $4.5 million in servicing rights. In addition, we had $1.1 million in life settlement contracts due to our new investment in LCF in 2013.

Hedging Instruments. Our hedges at December 31, 2013 and 2012 were fixed-for-floating interest rate swap agreements whereby we swapped the floating rate of interest on the liabilities we hedged for a fixed rate of interest. With interest rates at historically low levels and the forward curve projecting steadily increasing rates as well as the scheduled maturity of two hedges and continued amortization of our swaps during 2014, we expect that the fair value of our hedges will modestly improve in 2014. We intend to continue to seek such hedges for our floating rate debt in the future. Our hedges at December 31, 2013 were as follows (in thousands):

	Benchmark rate	Notional value	Strike rate	Effective date	Maturity date	Fair value
CRE Swaps						
Interest rate swap	1 month LIBOR	$29,949	4.13%	01/10/08	05/25/16	$(1,186)
Interest rate swap	1 month LIBOR	1,681	5.72%	07/12/07	10/01/16	(173)
Interest rate swap	1 month LIBOR	1,880	5.68%	07/13/07	03/12/17	(288)
Interest rate swap	1 month LIBOR	79,418	5.58%	06/26/07	04/25/17	(7,769)
Interest rate swap	1 month LIBOR	1,726	5.65%	07/05/07	07/15/17	(196)
Interest rate swap	1 month LIBOR	3,850	5.65%	07/26/07	07/15/17	(435)
Interest rate swap	1 month LIBOR	4,023	5.41%	08/10/07	07/25/17	(432)
Total CRE Swaps		122,527				(10,479)
CMBS Swaps						
Interest rate swap	1 month LIBOR	1,865	1.11%	04/26/2011	01/15/2014	—
Interest rate swap	1 month LIBOR	357	0.84%	03/31/2011	01/18/2014	—
Interest rate swap	1 month LIBOR	2,646	1.93%	02/14/2011	05/01/2015	(49)
Interest rate swap	1 month LIBOR	391	1.30%	07/19/2011	03/18/2016	(7)
Interest rate swap	1 month LIBOR	1,711	1.95%	04/11/2011	03/18/2016	(51)
Total CMBS Swaps		6,970				(107)
Total Interest Rate Swaps		$129,497	5.03%			$(10,586)

Repurchase and Credit Facilities. Borrowings under the repurchase agreements were guaranteed by us or one of our subsidiaries. The following table sets forth certain information with respect to the our borrowings at December 31, 2013 and 2012 (dollars in thousands):

	December 31, 2013				December 31, 2012			
	Outstanding Borrowings	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate	Outstanding Borrowings	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate
CMBS Term Repurchase Facility								
Wells Fargo Bank (1)	$47,601	$56,949	0.044	1.38%	$42,530	$51,636	0.033	1.52%
CRE Term Repurchase Facilities								
Wells Fargo Bank (2) (3)	30,003	48,186	0.003	2.67%	58,834	85,390	0.008	2.89%
Deutsche Bank AG (3)	(300)	—	—	—	N/A	N/A	N/A	N/A

Short-Term Repurchase Agreements - CMBS								
Wells Fargo Securities, LLC	—	—	—	—	1,862	3,098	0.001	1.46%
Deutsche Bank Securities, LLC	—	—	—	—	3,077	5,111	0.001	1.46%
Residential Mortgage Financing Agreements								
New Century Bank	11,916	13,089	0.074	4.17%	N/A	N/A	N/A	N/A
ViewPoint Bank, NA	2,711	3,398	0.017	4.58%	N/A	N/A	N/A	N/A
Totals	$91,931	$121,622			$106,303	$145,235		

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(1) The CMBS Wells Fargo term facility borrowing includes $12,000 and $23,000, of deferred debt issuance costs as of December 31, 2013 and 2012, respectively.

(2) The Wells Fargo CRE term repurchase facility borrowing includes $732,000 and $348,000 of deferred debt issuance costs as of December 31, 2013 and 2012, respectively.

(3) The Deutsche Bank term repurchase facility has not been utilized through December 31, 2013 and borrowing includes $300,000 of deferred debt issuance costs as of December 31, 2013.

The assets in the following table are accounted for as linked transactions. These linked repurchase agreements are not included in borrowings on our consolidated balance sheets (see Note 21).

	December 31, 2013				December 31, 2012			
	Borrowings Under Linked Transactions (1)	Value of Collateral Under Linked Transactions	Number of Positions as Collateral Under Linked Transactions	Weighted Average Interest Rate of Linked Transactions	Borrowings Under Linked Transactions (1)	Value of Collateral Under Linked Transactions	Number of Positions as Collateral Under Linked Transactions	Weighted Average Interest Rate of Linked Transactions
CMBS Term Repurchase Facility								
Wells Fargo Bank	$6,506	$ 8,345	0.007	1.65%	$12,180	$ 14,586	0.006	1.40%
CRE Term Repurchase Facilities								
Wells Fargo Bank	—	—	—	—%	—	—	—	—%
Short-Term Repurchase Agreements - CMBS								
JP Morgan Securities, LLC	17,020	24,814	0.004	0.99%	4,703	7,221	0.001	1.01%
Wells Fargo Securities, LLC	21,969	30,803	0.009	1.19%	3,533	5,444	0.001	1.46%
Deutsche Bank Securities, LLC	18,599	29,861	0.009	1.43%	—	—	—	—%
Totals	$64,094	$ 93,823			$20,416	$ 27,251		

CMBS – Term Repurchase Facility

In February 2011, our wholly-owned subsidiaries, RCC Real Estate and RCC Commercial, entered into a master repurchase agreements with Wells Fargo to be used as a warehouse facility to finance the purchase of highly-rated CMBS. The maximum amount of the facility is $100.0 million with a 0.25% structuring fee and an initial two year term that has been extended through January 31, 2015 and an interest rate equal to one-month LIBOR plus 1.00%. We guaranteed RCC Real Estate's and RCC Commercial's performance of their obligations under the repurchase

agreement.
CRE – Term Repurchase Facilities
On February 27, 2012, RCC Real Estate entered into a master repurchase and securities agreement with Wells Fargo to finance the origination of commercial real estate loans. The facility has a maximum amount of $150.0 million and with a maturity of February 27, 2015. We also have two one-year extension options at our discretion. We paid an origination fee of 37.5 basis points (0.375%). We guaranteed RCC Real Estate's performance of its obligations under the repurchase agreement.
On July 19, 2013, RCC Real Estate's wholly-owned subsidiary, RCC Real Estate SPE 5 LLC, entered into a master repurchase and securities agreement with Deutsche Bank AG, Cayman Islands Branch to finance the origination of commercial real estate loans. The facility has a maximum amount of $200.0 million and an initial 12 month term, ending on July 19, 2014, with 2 P1Y-year extensions at our option and subject further to our right to repurchase the assets held in the facility earlier. We paid a structuring fee of 0.25% of the maximum facility amount, as well as other closing costs. We guaranteed RCC Real Estate SPE 5's performance of its obligations under the facility. There were no outstanding borrowings under this facility as of December 31, 2013 or 2012.
The facility contains provisions allowing RCC Real Estate SPE 5, if certain credit events have occurred with respect to one or more assets financed on the facility, to either repay a portion of the advance on such asset(s) or repay such advance in full (by repurchase of such asset(s)). Depending on the nature of the credit event, such repayment may be required notwithstanding the availability of interest and principal payments from assets financed on the facility, or may only be required to the extent of the availability of such payments.

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Short-Term Repurchase Agreements - CMBS

On March 8, 2005, RCC Real Estate entered into a master repurchase and securities agreement with Deutsche Bank Securities Inc. to finance the origination of commercial real estate loans and the purchase of CMBS. There is no stated maximum amount of the facility and the repurchase agreement has an initial 12 month term with monthly resets of interest rates. We guaranteed RCC Real Estate's performance of its obligations under the repurchase agreement.

On February 14, 2012, RCC Real Estate entered into a master repurchase and securities agreement with Wells Fargo Securities, LLC to finance the purchase of CMBS. There is no stated maximum amount of the facility and the repurchase agreement has no stated maturity date with monthly resets of interest rates. We guaranteed RCC Real Estate's performance of our obligations under the repurchase agreement.

On November 6, 2012, RCC Real Estate entered into a master repurchase and securities agreement with JP Morgan Securities LLC to finance the purchase of CMBS. There is no stated maximum amount of the facility and the repurchase agreement has no stated maturity. Interest rates reset monthly.

Residential Mortgage Financing Agreements

On February 17, 2011, Primary Capital Advisors, or PCA, entered into a master repurchase agreement with New Century Bank d/b/a Customer's Bank, or New Century, to finance the acquisition of residential mortgage loans. The facility has a maximum amount of $30.0 million with a termination date of July 2, 2014. At December 31, 2013, PCA had borrowed $11.9 million. The facility bears interest at one month LIBOR plus 3.50%. We did not own PCA, nor were we a party to the agreement with New Century at December 31, 2012.

On November 8, 2012, our recently acquired subsidiary, PCA entered into a loan participation agreement with ViewPoint Bank, NA, or ViewPoint, to finance the acquisition of residential mortgage loans. The facility has a maximum amount of $15.0 million and a termination date of December 30, 2014. At December 31, 2013, PCA had borrowed $2.7 million. The facility bears interest at one month LIBOR with a 4.00% floor. We did not own PCA or was party to the agreement with ViewPoint at December 31, 2012.

On August 1, 2011, we, through RCC Real Estate, purchased Whispertree Apartments, a 504 unit multi-family property located in Houston, Texas, for $18.1 million. The property was 95% occupied at acquisition. In conjunction with the purchase of the property, we entered into a seven year mortgage of $13.6 million with a lender. The mortgage bore interest at a rate of one-month LIBOR plus 3.95%. At December 31, 2012, the borrowing rate was 4.17%. At December 31, 2013 there were no outstanding borrowings under this agreement as the property was sold and the underlying mortgage was repaid.

Securitizations

As of December 31, 2013, we had executed seven and retained equity in six securitizations as follows:

- In December 2013, we closed CRE Notes 2013, a $307.8 million CRE securitization transaction that provided financing for transitional CRE loans. The investments held by RCC CRE Notes 2013 collateralized $260.8 million of senior notes issued by the securitization, of which RCC Real Estate, a subsidiary of ours, purchased 100% of the Class D senior notes, Class E senior notes, and Class F senior notes for $30.0 million at closing. In addition, RCC CRE Notes 2013 Investor, LLC, a subsidiary of RCC Real Estate, purchased a $16.9 million equity interest representing 100% of the outstanding preference shares. At December 31, 2013, the notes issued to outside investors, had a weighted average borrowing rate of 2.03%. There is no reinvestment period for CRE Notes 2013, which will result in the sequential pay down of notes as underlying collateral matures and pays down. As of December 31, 2013, none of the notes have been paid down.
- In June 2007, we closed RREF CDO 2007-1, a $500.0 million CDO transaction that provided financing for commercial real estate loans. The investments held by RREF CDO 2007-1 collateralized $458.8 million of senior notes issued by the CDO vehicle, of which RCC Real Estate, a subsidiary of ours, purchased 100% of the class H senior notes, class K senior notes, class L senior notes and class M senior notes for $68.0 million at closing, $5.0 million of the Class J senior notes in February 2008, an additional $2.5 million of the Class J senior notes in November 2009, and $11.9 million of the Class E senior notes, $11.9 million of the Class F senior notes and $7.3 million of the Class G senior notes in December 2009, $250,000 of the Class J senior notes in January 2010, $5.0 million of the Class A-2 senior notes in August 2011, $5.0 million of the Class A-2 senior notes in September 2011 and $50.0 million of the A1-R notes in June 2012.

In addition, RREF 2007-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $41.3 million equity interest representing 100% of the outstanding preference shares. At December 31, 2013, the notes issued to outside investors, net of repurchased notes, had a weighted average borrowing rate of 0.84%. The reinvestment period expired in June 2012 and the CDO has begun paying down the senior notes as principal is collected. Through December 31, 2013, $63.4 million of the Class A-1 and $50.0 million of the Class A-1R senior notes had been paid down.

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- In May 2007, we closed Apidos Cinco CDO, a $350.0 million CDO transaction that provided financing for bank loans. The investments held by Apidos Cinco CDO collateralized $322.0 million of senior notes issued by the CDO vehicle. RCC Commercial II, a subsidiary of ours, holds a $28.0 million equity interest representing 100% of the outstanding preference shares. At December 31, 2013, the notes issued to outside investors had a weighted average borrowing rate of 0.74%.
- In August 2006, we closed RREF CDO 2006-1, a $345.0 million CDO transaction that provided financing for commercial real estate loans. The investments held by RREF CDO 2006-1 collateralized $308.7 million of senior notes issued by the CDO vehicle. RCC Real Estate purchased 100% of the class J senior notes and class K senior notes for $43.1 million at closing and $7.5 million of the Class F senior notes in September 2009, $3.5 million of the Class E senior notes and $4.0 million of the Class F senior notes in September 2009, $20.0 million of the Class A-1 senior notes in February 2010, $4.3 million of the Class A-1 senior notes in May 2012 and $4.0 million of the Class C senior notes in May 2012. In addition, RREF 2006-1 CDO Investor, LLC, a subsidiary of RCC Real Estate, purchased a $36.3 million equity interest representing 100% of the outstanding preference shares. At December 31, 2013, the notes issued to outside investors, net of repurchased notes, had a weighted average borrowing rate of 1.87%. The reinvestment period expired in September 2011 and the CDO has begun paying down the senior notes as principal is collected. Through December 31, 2013, $110.0 million of the Class A-1 senior notes had been paid down.
- In May 2006, we closed Apidos CDO III, a $285.5 million CDO transaction that provided financing for bank loans. The investments held by Apidos CDO III collateralized $262.5 million of senior notes issued by the CDO vehicle. RCC Commercial purchased a $23.0 million equity interest representing 100% of the outstanding preference shares. At December 31, 2013, the notes issued to outside investors had a weighted average borrowing rate of 0.88%. The reinvestment period expired in June 2012 and the CDO has begun paying down the senior notes as principal is collected. Through December 31, 2013, $129.2 million of the Class A-1 senior notes had been paid down.
- In August 2005, we closed Apidos CDO I, a $350.0 million CDO transaction that provided financing for bank loans. The investments held by Apidos CDO I collateralize $321.5 million of senior notes issued by the CDO vehicle. RCC Commercial originally purchased a $28.5 million equity interest representing 100% of the outstanding preference shares and during the three months ended June 30, 2012 sold 10% or $2.85 million to our subsidiary RSO Equity Co, LLC in connection with the sale of CVC Credit Partners, formerly Apidos Capital Management, by the Manager. Our subsidiary, RCC Commercial II, repurchased $2.0 million of the Class B notes in May 2012. At December 31, 2013, the notes issued to outside investors had a weighted average borrowing rate of 1.68%. The reinvestment period expired in July 2011 and the CDO has begun paying down the senior notes as principal is collected. Through December 31, 2013, $232.4 million of the Class A-1 senior notes had been paid down.

6.0% Convertible Senior Notes

On October 21, 2013, we issued and sold in a public offering $115.0 million aggregate in principal amount of our 6.0% Convertible Senior Notes due 2018. After deducting the underwriting discount and the estimated offering costs, we received approximately $111.1 million of net proceeds. The discount of $4.9 million on the 6.0% Convertible Senior notes reflects the difference between the stated value of the debt and the fair value of the notes as if they were issued without a conversion feature and at a higher rate of interest that we estimated would have been applicable without the conversion feature. The discount will be amortized on a straight-line basis as additional interest expense through maturity on December 1, 2018. Interest on the 6.0% Convertible Senior Notes is paid semi-annually. Prior to December 1, 2018, the 6.0% Convertible Senior Notes are not redeemable at our option, except to preserve our status as a REIT. On or after December 1, 2018, we may redeem all or a portion of the 6.0% Convertible Senior Notes at a redemption price equal to the principal amount plus accrued and unpaid interest.

The 6.0% Convertible Senior Notes are convertible at the option of the holder at a current conversion rate of 150.1502 common shares per $1,000 principal amount of 6.0% Convertible Senior Notes (equivalent to a current conversion price of $6.66 per common share). Upon conversion of 6.0% Convertible Senior Notes by a holder, the holder will receive cash, our common shares or a combination of cash and our common shares, at our election.

Trust Preferred Securities

In May 2006 and September 2006, we formed RCT I and RCT II, respectively, for the sole purpose of issuing and selling capital securities representing preferred beneficial interests. Although we owns $774,000 of the common securities of RCT I and RCT II, RCT I and RCT II are not consolidated into our consolidated financial statements because the we do not deem it to be the primary beneficiary of these entities. In connection with the issuance and sale of the capital securities, we issued junior subordinated debentures to RCT I and RCT II of $25.8 million each, representing our maximum exposure to loss. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II are included in borrowings and are being amortized into interest expense in the consolidated statements of income using the effective yield method over a ten year period.

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The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at December 31, 2013 were $261,000 and $282,000, respectively. The debt issuance costs associated with the junior subordinated debentures for RCT I and RCT II at December 31, 2012, were $358,000 and $377,000, respectively. The rates for RCT I and RCT II, at December 31, 2013, were 4.20% and 4.19%, respectively. The rates for RCT I and RCT II, at December 31, 2012, were 4.26% and 4.26%, respectively.

The rights of holders of common securities of RCT I and RCT II are subordinate to the rights of the holders of capital securities only in the event of a default; otherwise, the common securities' economic and voting rights are pari passu with the capital securities. The capital and common securities of RCT I and RCT II are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures held by each. Unless earlier dissolved, RCT I will dissolve on May 25, 2041 and RCT II will dissolve on September 29, 2041. The junior subordinated debentures are the sole assets of RCT I and RCT II, mature on September 30, 2036 and October 30, 2036, respectively, and may be called at par by us at any time after September 30, 2011 and October 30, 2011, respectively. We record our investments in RCT I and RCT II's common securities of $774,000 each as investments in unconsolidated trusts and records dividend income upon declaration by RCT I and RCT II.

Stockholders' Equity

Stockholders' equity at December 31, 2013 was $773.9 million and gave effect to $11.2 million of unrealized losses on our cash flow hedges and $3.1 million of unrealized losses on our available-for-sale portfolio, shown as a component of accumulated other comprehensive loss. Stockholders' equity at December 31, 2012 was $613.3 million and gave the effect to $15.6 million of unrealized losses on cash flow hedges and $11.5 million of unrealized losses on our available-for-sale portfolio, shown as a component of accumulated other comprehensive income. The increase in stockholder's equity during the year ended December 31, 2013 was principally due to the proceeds from sales of our common stock through a public offering and our DRIP as well as the issuance by our at-the market offering of Series B 8.25% Preferred Stock.

Funds from Operations

We evaluate our performance based on several performance measures, including funds from operations, or FFO, and Adjusted Funds from Operations, or AFFO, in addition to net income. Historically, we have calculated distributions to our shareholders based on our estimate of REIT taxable income. Because of our investments in CRE and the resulting significant tax depreciation charges, we now compute and present FFO, and use AFFO, as our primary operating measures to determine distributions to shareholders, in addition to net income and REIT taxable income. We expect that our FFO will be greater than our net income under generally accepted accounting principles, or GAAP, primarily because real estate related depreciation and amortization and other non-cash charges are not deducted in the calculation of these measures. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts as net income (computed in accordance with GAAP), excluding gains or losses on the sale of depreciable real estate, the cumulative effect of changes in accounting principles, real estate-related depreciation and amortization, and after adjustments for unconsolidated/uncombined partnerships and joint ventures.

AFFO is a computation made by analysts and investors to measure a real estate company's cash flow generated by operations. We calculate AFFO by adding or subtracting from FFO the non-cash impacts of the following: non-cash impairment losses resulting from fair value adjustments on financial instruments, provision for loan losses, equity investment gains and losses, straight-line rental effects, share based compensation, amortization of various deferred items and intangible assets, gains on sales of property that are wholly owned or through a joint venture in addition to the cash impact of capital expenditures that are related to our real estate owned. In addition, we calculate AFFO by adding and subtracting from FFO the cash impacts of the following: extinguishment of debt, sales of property and capital expenditures.

Management believes that FFO and AFFO are appropriate measures of our operating performance in that they are frequently used by analysts, investors and other parties in the evaluation of REITs. Management uses FFO and AFFO as measures of our operating performance, and believes they are also useful to investors, because they facilitate an understanding of our operating performance after adjustment for certain non-cash items, such as real estate depreciation, share-based compensation and various other items required by GAAP, and capital expenditures, that

may not necessarily be indicative of current operating performance and that may not accurately compare our operating performance between periods.
While our calculations of AFFO may differ from the methodology used for calculating AFFO by other REITs and our AFFO may not be comparable to AFFO reported by other REITs, we also believe that FFO and AFFO may provide us and our investors with an additional useful measure to compare our performance with some other REITs. Neither FFO nor AFFO is equivalent to net income or cash generated from operating activities determined in accordance with GAAP. Furthermore FFO and AFFO do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments or uncertainties. Neither FFO nor AFFO should be considered as an alternative to GAAP net income as an indicator of our operating performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

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The following table reconciles GAAP net income to FFO and AFFO for the periods presented (in thousands):

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Years Ended December 31, 2013	Years Ended December 31, 2012
Net (loss) income allocable to common shares - GAAP	$(948)	$14,141	$39,232	$63,199
Adjustments:				
Real estate depreciation and amortization	381	661	2,122	2,686
Gains on sale of property [1]	(333)	(224)	(14,588)	(1,664)
FFO	(900)	14,578	26,766	64,221
Adjustments:				
Non-cash items:				
Adjust for impact of imputed interest on VIE accounting	899	(3,049)	899	(3,049)
(Benefit) provision for loan losses	(1,186)	7,900	(3,325)	12,408
Amortization of deferred costs (non real estate) and intangible assets	1,151	3,140	6,060	8,896
Equity investment (earnings) losses	(195)	956	183	3,256
Share-based compensation	2,605	1,224	10,472	4,636
Impairment losses	52	—	863	180
Unrealized loss on CMBS marks - linked transactions	195	—	6,018	—
Straight line rental adjustments	(6)	1	(12)	15
Add-back interest related to Whitney note discount amortization	—	—	2,549	—
Loss on liquidation and deconsolidation of Apidos VIII	16,036	—	16,036	—
Gain on the extinguishment of debt	—	(11,235)	—	(13,070)
Incentive Management Fee adjustment related to extinguishment of debt	—	2,614	—	2,614
REIT tax planning adjustments	(2,189)	6,810	890	6,810
Cash items:				
Gains on sale of property [1]	333	224	14,588	1,664
Gain on the extinguishment of debt	561	7	7,810	670
Capital expenditures	(140)	(826)	(1,149)	(3,081)
AFFO	$17,216	$22,344	$88,648	$86,170
Weighted average shares – diluted	124,436	100,959	120,039	89,284
AFFO per share – diluted	$0.14	$0.22	$0.74	$0.97

(1) Amount represents gains/losses on sales of joint venture real estate interests that were recorded by us on an equity basis. Amounts for the year ended December 31, 2013 also includes a net gain on sale of property of $16.6 million after deducting incentive management fees paid to the manager of $1.9 million.

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Liquidity and Capital Resources

For the year ended December 31, 2013, our principal sources of liquidity were proceeds from the sale of common stock through our common stock offering in April, our DRIP and proceeds from our ATM program with respect to our 8.25% Series B Preferred Stock as well as funds available in existing CDO financings of $35.1 million and cash flow from operations. For the year ended December 31, 2013, we received $114.5 million of net proceeds from our common stock offering, $19.2 million of DRIP proceeds, and $56.8 million of preferred stock sales proceeds, remaining proceeds of which are included in our $262.4 million of unrestricted cash at December 31, 2013. In addition, we had capital available through a CMBS term facility to help finance the purchase of CMBS securities of $52.4 million and two CRE term facilities for the origination of commercial real estate loans of $219.3 million and $200.0 million. As of December 31, 2012, our principal sources of current liquidity were proceeds from the sale of common stock through our DRIP, proceeds from our offerings of 8.5% Series A Preferred Stock and 8.25% Series B Preferred Stock as well as funds available in existing CDO financings of $78.5 million and cash flow from operations. For the year ended December 31, 2012, we received $73.0 million of DRIP proceeds and $43.1 million of preferred stock sales proceeds, the remainder of which are included in our $85.3 million of unrestricted cash at December 31, 2012. In addition, we had capital available through two CRE term facilities to help finance the purchase of CMBS securities and the origination of commercial real estate loans of $45.3 million and $90.9 million, respectively.

In October 2013, we closed and issued $115.0 million aggregate principal amount of our 6.0% Convertible Senior Notes due 2018. We received net proceeds of approximately $111.1 million after payment of underwriting discounts and commissions and other offering expenses, all of which is included in our $262.4 million of unrestricted cash.

Our on-going liquidity needs consist principally of funds to make investments, make debt repurchases, make distributions to our stockholders and pay our operating expenses, including our management fees. Our ability to meet our on-going liquidity needs will be subject to our ability to generate cash from operations and, with respect to our investments, our ability to maintain and/or obtain additional debt financing and equity capital together with the funds referred to above. Historically, we have financed a substantial portion of our portfolio investments through CDOs that essentially match the maturity and repricing dates of these financing vehicles with the maturities and repricing dates of our investments. We derive substantial operating cash from our equity investments in our CDOs which, if the CDOs fail to meet certain tests, will cease. Through December 31, 2013, we have not experienced difficulty in maintaining our existing CDO financing and have passed all of the critical tests required by these financings. However, we cannot assure you that we will continue to meet all such critical tests in the future. If we are unable to renew, replace or expand our sources of existing financing on substantially similar terms, we may be unable to implement our investment strategies successfully and may be required to liquidate portfolio investments. If required, a sale of portfolio investments could be at prices lower than the carrying value of such assets, which would result in losses and reduced income.

The following table sets forth the distributions made and coverage test summaries for each of our securitizations for the periods presented (in thousands):

Name	Cash Distributions		Annualized Interest Coverage Cushion	Overcollateralization Cushion	
	Year Ended December 31, 2013 [(1)] (actual)	Year Ended December 31, 2012 [(1)] (actual)	As of December 31, 2013 [(2)] [(3)]	As of December 31, 2013 [(4)]	As of Initial Measurement Date
Apidos CDO I [(5)]	$4,615	$7,971	$1,583	$13,252	$17,136
Apidos CDO III [(6)]	$6,495	$8,742	$2,385	$9,700	$11,269
Apidos Cinco CDO [(7)]	$12,058	$11,109	$5,451	$19,639	$17,774
Apidos CLO VIII [(8)]	$20,021	$2,992	$—	$—	$—
Whitney CLO I [(9)]	$13,470	$802	$—	$—	$—

RREF 2006-1 (10)	$36,828	$15,050	$5,675	$67,512	$24,941
RREF 2007-1 (11)	$10,880	$13,226	$7,418	$43,803	$26,032

(1) Distributions on retained equity interests in CDOs (comprised of note investments and preference share ownership) and principal paydowns on notes owned; RREF CDO 2006-1 includes $28.1 million and $2.3 million of paydowns as of December 31, 2013 and 2012, respectively.

(2) Interest coverage includes annualized amounts based on the most recent trustee statements.

(3) Interest coverage cushion represents the amount by which annualized interest income expected exceeds the annualized amount payable on all classes of CDO notes senior to our preference shares.

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(4) Overcollateralization cushion represents the amount by which the collateral held by the CDO issuer exceeds the maximum amount required.
(5) Apidos CDO I's reinvestment period expired in July 2011.
(6) Apidos CDO III's reinvestment period expired in June 2012.
(7) Apidos Cinco CDO's reinvestment period ends in May 2014.
(8) Distributions from Apidos CLO VIII, include $1.3 million and $752,000 in collateral management fees for the years ended December 31, 2013 and 2012, respectively, RSO's contribution of $15.0 million represents 43% of the subordinated debt. Apidos CLO VIII’s non-call period ended on October 17, 2013, at which time all assets were liquidated and all outstanding notes were paid off.
(9) Whitney CLO I was acquired in October 2012. Distributions from Whitney CLO I include $442,000 and $236,000 of collateral management fees for the years ended December 31, 2013 and 2012, respectively. We held 68.3% of the outstanding preference shares before Whitney CLO I was called and substantially liquidated in September 2013.
(10) RREF CDO 2006-1's reinvestment period expired in September 2011.
(11) RREF CDO 2007-1's reinvestment period expired in June 2012.

At January 31, 2014, after paying our fourth quarter 2013 common and preferred stock dividends, our liquidity is derived from three primary sources:

- unrestricted cash and cash equivalents of $199.2 million, restricted cash of $500,000 in margin call accounts and $998,000 in the form of real estate escrows, reserves and deposits;
- capital available for reinvestment in its eight securitizations of $40.5 million, of which $6.4 million is designated to finance future funding commitments on CRE loans; and
- loan principal repayments that will pay down outstanding CLO notes of $18.9 million and $5.0 million in interest collections.

In addition, we have funds available through three term financing facilities to finance the origination of CRE loans of $207.6 million and $200.0 million, respectively, and to finance the purchase of CMBS of $43.3 million.

Our leverage ratio may vary as a result of the various funding strategies we use. As of December 31, 2013 and 2012, our leverage ratio was 1.7 times and 2.9 times, respectively. The decrease in leverage ratio was primarily due to the repayment of our CDO notes and equity offering proceeds received through our DRIP and preferred stock issuances which were partially offset by borrowings under our Wells Fargo CMBS and Deutsche Bank CRE repurchase facilities.

Distributions

In order to maintain our qualification as a REIT and to avoid corporate-level income tax on the income we distribute to our stockholders, we intend to make regular quarterly distributions of all or substantially all of our net taxable income to holders of our common stock. This requirement can impact our liquidity and capital resources.

The following tables presents dividends declared (on a per share basis) for the years ended December 31, 2013:

Common Stock

	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share
December 31, 2013			
March 31	April 26	$21,634	$0.20
June 30	July 26	$25,399	$0.20
September 30	October 28	$25,447	$0.20
December 31	January 28	$25,536	$0.20
December 31, 2012			
March 31	April 27	$16,921	$0.20
June 30	July 26	$17,253	$0.20
September 30	October 26	$19,897	$0.20

December 31	January 28	$21,024	$0.20

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Preferred Stock

Series A	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share	Series B	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share
2013				2013			
March 31	April 30	$359	$0.53125	March 31	April 30	$1,152	$0.515625
June 30	July 30	$359	$0.53125	June 30	July 30	$1,584	$0.515625
September 30	October 30	$362	$0.53125	September 30	October 30	$1,662	$0.515625
December 31	January 30	$362	$0.53125	December 31	January 30	$1,797	$0.515625

Contractual Obligations and Commitments

	Contractual Commitments (dollars in thousands) Payments due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
CDOs (1)	$813,768	$—	$—	$—	$813,768
CRE Securitization	256,571	—	—	—	256,571
Repurchase Agreements (2)	91,931	91,931	—	—	—
Unsecured junior subordinated debentures (3)	51,005	—	—	—	51,005
6.0% Convertible Senior Notes (4)	111,386	—	—	—	111,386
Joint ventures (5)	176	—	176	—	—
Unfunded commitments on CRE loans (6)	13,656	—	13,656	—	—
Base management fees (7)	11,967	11,967	—	—	—
Total	$1,350,460	$103,898	$13,832	$—	$1,232,730

(1) Contractual commitments does not include $1.2 million, $3.8 million, $2.0 million, $6.8 million, and $10.9 million of interest expense payable through the stated maturity dates of July 2014, May 2015, May 2015, August 2016, and June 2017, respectively, on Apidos CDO I, Apidos Cinco CDO, Apidos CDO III, RREF 2006-1, and RREF 2007-1. The maturity date represents the time at which the CDO assets can be sold, resulting in repayment of the CDO notes.

(2) Contractual commitments include $48,000 of interest expense payable through the maturity date of January 20, 2014 on our repurchase agreements.

(3) Contractual commitments do not include $45.6 million and $46.5 million of estimated interest expense payable through the maturity dates of June 2036 and October 2036, respectively, on our trust preferred securities.

(4) Contractual commitments do not include $35.0 million of interest expense payable through the maturity date of December 1, 2018 on our 6.0% convertible senior notes.

(5) The joint venture agreement requires us to contribute 3% to 5% (depending on the terms of the agreement pursuant to which the particular asset is being acquired) of the total funding required for each asset acquisition as needed, up to a specified amount. We expect that all remaining assets will be sold within two years.

(6) Unfunded commitments on CRE loans generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs subject, in each case, to the borrower meeting specified criteria. Upon completion of the improvements or construction, we would receive additional loan interest income on the advanced amount.

(7)

Calculated only for the next 12 months based on our current equity, as defined in our management agreement. Our management agreement also provides for an incentive fee arrangement that is based on operating performance. Because the incentive fee is not a fixed and determinable amount, it is not included in this table.

At December 31, 2013, we had 12 interest rate swap contracts with a notional value of $129.5 million. These contracts are fixed-for-floating interest rate swap agreements under which we contracted to pay a fixed rate of interest for the term of the hedge and will receive a floating rate of interest. As of December 31, 2013, the average fixed pay rate of our interest rate hedges was 5.03% and our receive rate was one-month LIBOR, or 0.16%.

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Off-Balance Sheet Arrangements
General
As of December 31, 2013, we did not maintain any relationships with unconsolidated entities or financial partnerships that were established for the purpose of facilitating off-balance sheet arrangements or contractually narrow or limited purposes, although we do have interests in unconsolidated entities not established for those purposes. Except as set forth below, as of December 31, 2013, we had not guaranteed obligations of any such unconsolidated entities or entered into any commitment or letter of intent to provide additional funding to any such entities.
Unfunded Loan Commitments
In the ordinary course of business, we make commitments to borrowers whose loans are in our commercial real estate loan portfolio to provide additional loan funding in the future. These commitments generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs. Disbursement of funds pursuant to these commitments is subject to the borrower meeting pre-specified criteria. Upon disbursement of funds, we receive loan interest income on any such advanced funds. As of December 31, 2013, we had 19 loans with unfunded commitments totaling $13.7 million, of which $7.1 million will be funded by restricted cash in RCC CRE Notes 2013 and $430,000 will be funded by restricted cash in RREF CDO 2007-1; we intend to fund the remaining $6.2 million through cash flow from normal operating activities and principal repayments on other loans in our portfolio. These commitments are subject to the same underwriting requirements and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.
Guarantees and Indemnifications
In the ordinary course of business, we may provide guarantees and indemnifications that contingently obligate us to make payments to the guaranteed or indemnified party based on changes in the value of an asset, liability or equity security of the guaranteed or indemnified party. As such, we may be obligated to make payments to a guaranteed party based on another entity's failure to perform or achieve specified performance criteria, or we may have an indirect guarantee of the indebtedness of others. On November 16, 2011, as set forth in " -Financial Condition", as part of the LCC transaction, we and Resource America become jointly and severally liable to contribute cash to LCC, to the extent that the value of the equity on the balance sheet of LRF 3 is less than $18.7 million (the value of LRF 3's equity when it was contributed to LCC by RCC) as of a specified final testing date within 90 days following December 31, 2013. The LRF 3 equity as of December 31, 2013 was in excess of this commitment.
Critical Accounting Policies and Estimates
Our consolidated financial statements are prepared by management in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions that may affect the value of our assets or liabilities and our financial results. We believe that certain of our policies are critical because they require us to make difficult, subjective and complex judgments about matters that are inherently uncertain. The critical policies summarized below relate to valuation of investment securities, accounting for derivative financial instruments and hedging activities, income taxes, allowance for loan and lease losses and variable interest entities. We have reviewed these accounting policies with our board of directors and 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 the time. We rely on the Manager's experience and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates.
Valuation of Investment Securities
We classify our investment portfolio as either available-for-sale investments or trading investments. For a discussion of the basis of fair value analysis, and of the determination of whether an asset's valuation should be characterized as Level 1, Level 2 or Level 3, see Note 21, "Fair Value of Financial Instruments" in the notes to consolidated financial statements.

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We report securities available-for-sale at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. We also report investment securities, trading at fair value with unrealized gains and losses reported on the statement of income as net realized and unrealized gain on investment securities, trading. As of December 31, 2013 and 2012, we had aggregate unrealized losses on our available-for-sale securities of $3.1 million and $11.5 million, respectively, which, if not recovered, may result in the recognition of future losses. To determine fair value, we use an independent third-part valuation firm. These valuations are validated using a quote from a dealer, which typically will be the dealer who sold us the security. If there is a material difference between the value indicated by the third-party valuation firm and the dealer quote, we will evaluate the difference which could result in an updated valuation from the third-party firm or a revised dealer quote. Based on the market color available for each position, we categorize these investments as either 2, or 3 in the fair value hierarchy.

We are required to determine when an investment is considered impaired (i.e., decline in fair value below its amortized cost), evaluate whether the impairment is other than temporary (i.e., the investment value will not be recovered over its remaining life), and, if the impairment is other than temporary, recognize an impairment loss equal to the difference between the investment's cost and its fair value.

We record investment securities transactions on the trade date. We record purchases of newly issued securities when all significant uncertainties regarding the characteristics of the securities are removed, generally shortly before settlement date. We determine realized gains and losses on investment securities on the specific identification method.

Accounting for Derivative Financial Instruments and Hedging Activities

Our policies permit us to enter into derivative contracts, including interest rate swaps and interest rate caps, as a means of mitigating our interest rate risk on forecasted interest expense associated with the benchmark rate on forecasted rollover/reissuance of repurchase agreements or the interest rate repricing of repurchase agreements, or other similar hedged items, for a specified future time period.

As of December 31, 2013, we had engaged in 12 interest rate swaps with a notional value of $129.5 million and a fair value of $(10.6) million to seek to mitigate our interest rate risk for specified future time periods as defined in the terms of the hedge contracts. As of December 31, 2012, we had engaged in 16 interest rate swaps with a notional value of $135.2 million and a fair value of $(14.7) million to seek to mitigate our interest rate risk for specified future time periods as defined in the terms of the hedge contracts. The contracts we have entered into have been designated as cash flow hedges and are evaluated at inception and on an ongoing basis in order to determine whether they qualify for hedge accounting. The hedge instrument must be highly effective in achieving offsetting changes in the hedged item attributable to the risk being hedged in order to qualify for hedge accounting. A hedge instrument is highly effective if changes in the fair value of the derivative provide an offset to at least 80% and not more than 125% of the changes in fair value or cash flows of the hedged item attributable to the risk being hedged. The interest rate swap contracts are carried on our consolidated balance sheets at fair value. Any ineffectiveness which arises during the hedging relationship must be recognized in interest expense or income during the period in which it arises. Before the end of the specified hedge time period, the effective portion of all contract gain and losses (whether realized or unrealized) is recorded in other comprehensive income or loss. Realized gains and losses on the interest rate hedges are reclassified into earnings as an adjustment to interest expense during the period after the swap repricing date through the remaining maturity of the swap. For taxable income purposes, realized gains and losses on interest rate cap and swap contracts are reclassified into earnings over the term of the hedged transactions as designated for tax.

We are not required to account for derivative contracts using hedge accounting as described above. If we decided not to designate the derivative contracts as hedges and to monitor their effectiveness as hedges, or if we entered into other types of financial instruments that did not meet the criteria to be designated as hedges, changes in the fair values of these instruments would be recorded in our statement of income, potentially resulting in increased volatility in our earnings. We had no interest rate cap agreements at December 31, 2013 and 2012.

We may also enter into forward contracts for the sale of mortgage-backed securities for the purpose of hedging our closed residential mortgage loans held for sale and our pipeline of residential mortgage loans expected to close. As residential mortgage loans are closed, they are typically sold at prices specified in the forward contracts. Gains or losses may arise if the yields of the loans delivered vary from those specified in the forward contracts. Derivative mortgage loan commitments, or interest rate locks, may also be utilized and relate to the origination of a mortgage that will be held for sale upon funding.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns.

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The tax rates we use to determine deferred tax assets or liabilities are the enacted tax rates in effect for the year in which we expect the differences to reverse. We recognize effects of tax rate changes on deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws in net earnings in the period during which such changes are enacted. The future realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. We continually evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing forecasted taxable income using both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carryback years (if permitted) and the availability of tax planning strategies. We must establish a valuation allowance unless we determine that it is more likely than not that we will ultimately realize the tax benefit associated with a deferred tax asset.

We account for taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction (e.g., sales, use, value added) on a net (excluded from revenue) basis.

Allowance for Loan Losses

We maintain an allowance for loan losses. Loans held for investment are first individually evaluated for impairment, and then evaluated as a homogeneous pool as loans with substantially similar characteristics for impairment. We perform the reviews at least quarterly.

We consider an individual loan to be impaired when, based on current information and events, management believes it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, we increase the allowance for loan losses by the amount of the excess of the amortized cost basis of the loan over its fair value. Fair value may be determined based on the present value of estimated cash flows; on market price, if available; or the fair value of the collateral less estimated disposition costs. When we consider a loan, or a portion thereof, uncollectible and pursuit of the collection is not warranted, we will record a charge-off or write-down of the loan against the allowance for credit losses.

Variable Interest Entities

We consolidate entities that are variable interest entities, or VIEs where we have determined that we are the primary beneficiary of such entities. Once it is determined that we hold a variable interest in a VIE, management performs a qualitative analysis to determine (i) if we have the power to direct the matters that most significantly impact the VIE's financial performance; and (ii) if we have the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive the benefits of the VIE that could potentially be significant to the VIE. If our variable interest possesses both of these characteristics, we are deemed to be the primary beneficiary and would be required to consolidate the VIE. This assessment must be done on an ongoing basis. As of December 31, 2013, we determined that RCC CRE Notes 2013, RREF CDO 2007-1, RREF CDO 2006-1, Apidos CDO I, Apidos CDO III and Apidos Cinco CDO and Apidos CLO VIII and Whitney CLO I are VIEs and that we are the primary beneficiary.

Recent Accounting Pronouncements

In January 2014, the FASB issued guidance that clarifies when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. Furthermore, the guidance requires interim and annual disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This guidance is effective or annual periods, and interim periods within those annual periods, beginning after December 15, 2014. We are currently evaluating the effect of adoption, but do not expect adoption will have a material impact on our consolidated financial statements.

In July 2013, the FASB issued guidance which permits the Federal Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes. This guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. Adoption did not have a material impact on our consolidated financial statements.

In June 2013, the FASB issued guidance which clarifies the characteristics of an investment company, provides comprehensive guidance for assessing whether an entity is an investment company and requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. The guidance also requires additional disclosure. This guidance is effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. We are currently evaluating the effect of adoption, but do not expect adoption will have a material impact on our consolidated financial statements.

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In February 2013, the FASB issued guidance which amends required information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this guidance were effective for reporting periods beginning after December 15, 2012. We provided the enhanced footnote disclosure required by this guidance in our consolidated financial statements.
In January 2013, the FASB issued guidance which clarifies the scope of accounting for certain derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments in this guidance were effective for interim and annual reporting periods beginning on or after January 1, 2013 and will be applied retrospectively for all comparative periods presented. We provided the enhanced footnote disclosure required by this guidance in our consolidated financial statements.

Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors based primarily on adjusted funds from operations, a non-GAAP measure; in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

ITEM 7A . QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2013, the primary component of our market risk was interest rate risk, as described below. While we do not seek to avoid risk completely, we do seek to assume risk that can be quantified from historical experience, to actively manage that risk, to earn sufficient compensation to justify assuming that risk and to maintain capital levels consistent with the risk we undertake or to which we are exposed.

Effect on Fair Value

A component of interest rate risk is the effect changes in interest rates will have on the fair value of our assets. We face the risk that the fair value of our assets will increase or decrease at different rates than that of our liabilities, including our hedging instruments.

We primarily assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities.

The following sensitivity analysis tables show, at December 31, 2013, the estimated impact on the fair value of our interest rate-sensitive investments and liabilities of changes in interest rates, assuming rates instantaneously fall 100 basis points and rise 100 basis points (dollars in thousands):

	December 31, 2013		
	Interest rates fall 100 basis points	Unchanged	Interest rates rise 100 basis points
CMBS – private placement[1]:			
Fair value	$247,630	$255,670	$264,267
Change in fair value	(8,040)	—	8,597
Change as a percent of fair value	3.14 %	— %	3.36 %
Hedging instruments:			
Fair value	$(12,545)	$(10,586)	$(7,435)

Change in fair value	(1,959)	—	3,151
Change as a percent of fair value	18.51 %	— %	29.77 %

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(1)Includes the fair value of available-for-sale investments that are sensitive to interest rate change.

For purposes of the table, we have excluded our investments with variable interest rates that are indexed to LIBOR. Because the variable rates on these instruments are short-term in nature, we are not subject to material exposure to movements in fair value as a result of changes in interest rates.

It is important to note that the impact of changing interest rates on fair value can change significantly when interest rates change beyond 100 basis points from current levels. Therefore, the volatility in the fair value of our assets could increase significantly when interest rates change beyond 100 basis points from current levels. In addition, other factors impact the fair value of our interest rate-sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of our assets would likely differ from that shown above and such difference might be material and adverse to our stockholders.

Risk Management

To the extent consistent with maintaining our status as a REIT, we seek to manage our interest rate risk exposure to protect our portfolio of fixed-rate commercial real estate mortgages and CMBS and related debt against the effects of major interest rate changes. We generally seek to manage our interest rate risk by:

- monitoring and adjusting, if necessary, the reset index and interest rate related to our mortgage-backed securities and our borrowings;
- attempting to structure our borrowing agreements for our CMBS to have a range of different maturities, terms, amortizations and interest rate adjustment periods; and
- using derivatives, financial futures, swaps, options, caps, floors and forward sales, to adjust the interest rate sensitivity of our fixed-rate commercial real estate mortgages and CMBS and our borrowing which we discuss in “Financial Condition-Hedging Instruments.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTATRY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Resource Capital Corp.

We have audited the accompanying consolidated balance sheets of Resource Capital Corp. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits of the basic consolidated financial statements included the financial statement schedules listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Resource Capital Corp. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control -Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 3, 2014, expressed an unqualified opinion.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania
March 3, 2014

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2013	2012
ASSETS [(1)]		
Cash and cash equivalents	$262,270	$85,278
Restricted cash	63,309	94,112
Investment securities, trading	11,558	24,843
Investment securities available-for-sale, pledged as collateral, at fair value	162,608	195,200
Investment securities available-for-sale, at fair value	47,229	36,390
Linked transactions, net at fair value	30,066	6,835
Loans held for sale	21,916	48,894
Property available-for-sale	25,346	—
Investment in real estate	29,778	75,386
Loans, pledged as collateral and net of allowances of $13.8 million and $17.7 million	1,369,526	1,793,780
Loans receivable–related party	6,966	8,324
Investments in unconsolidated entities	74,438	45,413
Interest receivable	8,965	7,763
Deferred tax asset	5,212	2,766
Principal paydown receivable	6,821	25,570
Intangible assets	11,822	13,192
Prepaid expenses	2,871	10,396
Other assets	10,726	4,109
Total assets	$2,151,427	$2,478,251
LIABILITIES [(2)]		
Borrowings	$1,319,810	$1,785,600
Distribution payable	27,023	21,655
Accrued interest expense	1,693	2,918
Derivatives, at fair value	10,586	14,687
Accrued tax liability	1,629	13,641
Deferred tax liability	4,112	8,376
Accounts payable and other liabilities	12,650	18,029
Total liabilities	1,377,503	1,864,906
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.001: 100,000,000 shares authorized 8.50% Series A cumulative redeemable preferred shares, liquidation preference $25.00 per share, 680,952 and 676,373 shares issued and outstanding	1	1
Preferred stock, par value $0.001: 100,000,000 shares authorized 8.25% Series B cumulative redeemable preferred shares, liquidation preference $25.00 per share 3,485,078 and 1,126,898 shares issued and outstanding	3	1
Common stock, par value $0.001: 500,000,000 shares authorized; 127,918,927 and 105,118,093 shares issued and outstanding (including 3,112,595 and 3,308,343 unvested restricted shares)	128	105
Additional paid-in capital	1,042,480	836,053
Accumulated other comprehensive loss	(14,043)	(27,078)
Distributions in excess of earnings	(254,645)	(195,737)
Total stockholders' equity	773,924	613,345

TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$2,151,427	$2,478,251

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2013	2012
(1) Assets of consolidated VIEs included in the total assets above:		
Restricted cash	$61,372	$90,108
Investment securities available-for-sale, pledged as collateral, at fair value	105,846	135,566
Loans held for sale	2,376	14,894
Loans, pledged as collateral and net of allowances of $8.8 million and $15.2 million	1,219,569	1,678,719
Interest receivable	5,627	5,986
Prepaid expenses	247	328
Principal paydown receivable	6,821	25,570
Other assets	—	333
Total assets of consolidated VIEs	$1,401,858	$1,951,504
(2) Liabilities of consolidated VIEs included in the total liabilities above:		
Borrowings	$1,070,339	$1,614,882
Accrued interest expense	918	2,666
Derivatives, at fair value	10,191	14,078
Accounts payable and other liabilities	1,604	698
Total liabilities of consolidated VIEs	$1,083,052	$1,632,324

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

	Years Ended December 31,		
	2013	2012	2011
REVENUES			
Interest income:			
Loans	$99,455	$109,030	$86,739
Securities	14,309	14,296	12,424
Interest income – other	4,212	10,004	10,711
Total interest income	117,976	133,330	109,874
Interest expense	61,010	42,792	32,186
Net interest income	56,966	90,538	77,688
Rental income	19,923	11,463	3,656
Dividend income	273	69	3,045
Equity in net earnings (losses) of unconsolidated subsidiaries	949	(2,709)	112
Fee income	6,075	7,068	7,789
Net realized gain on sales of investment securities available-for-sale and loans	10,986	4,106	2,643
Net realized and unrealized (loss) gain on investment securities, trading	(324)	12,435	837
Unrealized (loss) gain and net interest income on linked transactions, net	(3,841)	728	216
Total revenues	91,007	123,698	95,986
OPERATING EXPENSES			
Management fees – related party	14,220	18,512	11,022
Equity compensation – related party	10,472	4,636	2,526
Rental operating expense	14,062	8,046	2,743
General and administrative	16,110	9,773	8,399
Depreciation and amortization	3,855	5,885	4,619
Income tax (benefit) expense	(1,041)	14,602	12,036
Net impairment losses recognized in earnings	863	180	6,898
Provision for loan losses	3,020	16,818	13,896
Total operating expenses	61,561	78,452	62,139
	29,446	45,246	33,847
OTHER REVENUE (EXPENSE)			
Gain on consolidation	—	2,498	—
Gain on the extinguishment of debt	—	16,699	3,875
Gain on sale of real estate	16,616	—	—
Other income (expense)	391	—	(6)
Total other revenue	17,007	19,197	3,869
NET INCOME	46,453	64,443	37,716
Net income allocated to preferred shares	(7,221)	(1,244)	—
NET INCOME ALLOCABLE TO COMMON SHARES	$39,232	$63,199	$37,716
NET INCOME PER COMMON SHARE – BASIC	$0.33	$0.71	$0.54
NET INCOME PER COMMON SHARE – DILUTED	$0.33	$0.71	$0.53
	118,478,672	88,410,272	70,410,131

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC			
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	120,038,973	89,284,488	70,809,088

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Years Ended December 31,		
	2013	2012	2011
Net income	$46,453	$64,443	$37,716
Other comprehensive income:			
Reclassification adjustment for gains (losses) included in net income	(2,459)	1,728	1,080
Unrealized gains (losses) on available-for-sale securities, net	10,858	18,770	(13,798)
Reclassification adjustments associated with unrealized losses from interest rate hedges included in net income	395	227	227
Unrealized gains (losses) on derivatives, net	4,045	(1,476)	82
Foreign currency translation	196	—	—
Total other comprehensive income (loss)	13,035	19,249	(12,409)
Comprehensive income allocable to common shares	$59,488	$83,692	$25,307

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED 2013, 2012 and 2011
(in thousands, except share and per share data)

	Common Stock								
	Shares	Amount	Preferred Shares - Series A	Preferred Shares - Series B	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity
Balance, January 1, 2011	58,183,425	$ 58	$ —	$ —	$ 528,373	$ (33,918)	$ —	$ (146,187)	$ 348,326
Proceeds from dividend reinvestment and stock purchase plan	13,511,300	14	—	—	83,561	—	—	—	83,575
Gross proceeds from common stock offering	6,900,000	7	—	—	47,603	—	—	—	47,610
Offering costs	—	—	—	—	(1,274)	—	—	—	(1,274)
Related party debt forgiveness	—	—	—	—	(1,552)	—	—	—	(1,552)
Stock based compensation	1,282,791	1	—	—	463	—	—	—	464
Amortization of stock based compensation	—	—	—	—	2,526	—	—	—	2,526
Net income	—	—	—	—	—	—	37,716	—	37,716
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	(12,718)	—	—	(12,718)
Designated derivatives, fair value adjustment	—	—	—	—	—	309	—	—	309
Distributions on common stock	—	—	—	—	—	—	(37,716)	(37,576)	(75,292)
December 31, 2011	79,877,516	80	—	—	659,700	(46,327)	—	(183,763)	429,690
Proceeds from dividend reinvestment and stock purchase plan	13,130,333	13	—	—	73,031	—	—	—	73,044
Proceeds from common stock	9,775,000	10	—	—	57,663	—	—	—	57,673
Proceeds from issuance of preferred stock	—	—	1	1	44,356	—	—	—	44,358
Offering costs	—		—	—	(4,147)	—	—	—	(4,147)
Stock based compensation	2,335,244	2	—	—	814	—	—	—	816
Amortization of stock based compensation	—		—	—	4,636	—	—	—	4,636
Net income	—	—	—	—	—	—	64,443	—	64,443
Preferred dividends	—	—	—	—	—	—	(1,244)	—	(1,244)
Securities available-for-sale, fair	—	—	—	—	—	20,498	—	—	20,498

value adjustment, net									
Designated derivatives, fair value adjustment	—	—	—	—	—	(1,249)	—	—	(1,249)
Distributions on common stock	—	—	—	—	—	—	(63,199)	(11,974)	(75,173)
December 31, 2012	105,118,093	105	1	1	836,053	(27,078)	—	(195,737)	613,345
Proceeds from dividend reinvestment and stock purchase plan	3,411,528	3	—	—	19,208	—	—	—	19,211
Proceeds from issuance of common stock	18,687,500	19	—	—	118,259	—	—	—	118,278
Proceeds from issuance of preferred stock	—	—	—	2	58,010	—	—	—	58,012
Offering costs	—	—	—	—	(5,510)	—	—	—	(5,510)
Discount on 6% senior convertible notes	—	—	—	—	4,851	—	—	—	4,851
Stock based compensation	701,806	1	—	—	1,137	—	—	—	1,138
Amortization of stock based compensation	—	—	—	—	10,472	—	—	—	10,472
Net Income	—	—	—		—	—	46,453	—	46,453
Preferred dividends	—	—	—	—	—	—	(7,221)	—	(7,221)
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	8,399	—	—	8,399
Designated derivatives, fair value adjustment	—	—	—	—	—	4,440	—	—	4,440
Cumulative translation adjustment	—	—	—	—	—	196	—	—	196
Distributions on common stock	—	—	—	—	—	—	(39,232)	(58,908)	(98,140)
December 31, 2013	127,918,927	$ 128	$ 1	$ 3	$ 1,042,480	$ (14,043)	$ —	$ (254,645)	$ 773,924

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Years Ended