

STARWOOD PROPERTY TRUST, INC.

Form 10-Q

May 09, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

27-0247747
(I.R.S. Employer
Identification No.)

591 West Putnam Avenue
Greenwich, Connecticut
(Address of Principal Executive Offices)

06830
(Zip Code)

Registrant's telephone number, including area code:

(203) 422-7700

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of May 4, 2016 was 237,661,803.



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Special Note Regarding Forward-Looking Statements

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

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

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2015 and this Quarterly Report on Form 10-Q, including those set forth under the captions “Risk Factors” and “Business”;
- defaults by borrowers in paying debt service on outstanding indebtedness;
- impairment in the value of real estate property securing our loans or in which we invest;
- availability of mortgage origination and acquisition opportunities acceptable to us;
- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;
- national and local economic and business conditions;
- general and local commercial and residential real estate property conditions;
- changes in federal government policies;
- changes in federal, state and local governmental laws and regulations;

- increased competition from entities engaged in mortgage lending and securities investing activities;
- changes in interest rates; and
- the availability of, and costs associated with, sources of liquidity.

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands, except share data)

	As of March 31, 2016	As of December 31, 2015
Assets:		
Cash and cash equivalents	\$ 335,219	\$ 368,815
Restricted cash	48,375	23,069
Loans held-for-investment, net	6,187,654	5,973,079
Loans held-for-sale, at fair value	154,225	203,865
Loans transferred as secured borrowings	88,512	86,573
Investment securities (\$321,533 and \$403,703 held at fair value)	649,364	724,947
Properties, net	1,154,975	919,225
Intangible assets (\$95,492 and \$119,698 held at fair value)	180,476	201,570
Investment in unconsolidated entities	196,637	199,201
Goodwill	140,437	140,437
Derivative assets	36,938	45,091
Accrued interest receivable	35,972	34,314
Other assets	111,860	102,479
Variable interest entity ("VIE") assets, at fair value	85,115,662	76,675,689
Total Assets	\$ 94,436,306	\$ 85,698,354
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 139,286	\$ 156,805
Related-party payable	24,157	40,955
Dividends payable	114,839	114,947
Derivative liabilities	16,202	5,196
Secured financing agreements, net	4,480,960	3,980,699
Convertible senior notes, net	1,329,072	1,323,795
Secured borrowings on transferred loans	89,905	88,000

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VIE liabilities, at fair value	84,151,022	75,817,014
Total Liabilities	90,345,443	81,527,411
Commitments and contingencies (Note 21)		
Equity:		
Starwood Property Trust, Inc. Stockholders' Equity:		
Preferred stock, \$0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 per share, 500,000,000 shares authorized, 242,218,855 issued and 237,611,970 outstanding as of March 31, 2016 and 241,044,775 issued and 237,490,779 outstanding as of December 31, 2015	2,422	2,410
Additional paid-in capital	4,210,904	4,192,844
Treasury stock (4,606,885 shares and 3,553,996 shares)	(92,104)	(72,381)
Accumulated other comprehensive income	33,457	29,729
Accumulated deficit	(100,201)	(12,286)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,054,478	4,140,316
Non-controlling interests in consolidated subsidiaries	36,385	30,627
Total Equity	4,090,863	4,170,943
Total Liabilities and Equity	\$ 94,436,306	\$ 85,698,354

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

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

	For the Three Months Ended March 31,	
	2016	2015
Revenues:		
Interest income from loans	\$ 117,532	\$ 118,429
Interest income from investment securities	19,403	27,744
Servicing fees	24,691	28,257
Rental income	32,677	2,672
Other revenues	1,190	1,747
Total revenues	195,493	178,849
Costs and expenses:		
Management fees	24,963	27,968
Interest expense	56,520	50,534
General and administrative	32,798	35,264
Acquisition and investment pursuit costs	1,285	1,186
Costs of rental operations	12,655	1,698
Depreciation and amortization	18,760	4,085
Loan loss allowance, net	(761)	317
Other expense	100	375
Total costs and expenses	146,320	121,427
Income before other income (loss), income taxes and non-controlling interests	49,173	57,422
Other income (loss):		
Change in net assets related to consolidated VIEs	(4,167)	47,861
Change in fair value of servicing rights	(6,739)	(1,542)
Change in fair value of investment securities, net	753	(499)
Change in fair value of mortgage loans held-for-sale, net	6,891	21,131
Earnings from unconsolidated entities	4,065	6,090
Gain on sale of investments and other assets, net	245	17,198
(Loss) gain on derivative financial instruments, net	(24,718)	24,623
Foreign currency loss, net	(378)	(30,307)
Total other-than-temporary impairment ("OTTI")	(54)	—
Noncredit portion of OTTI recognized in other comprehensive income	54	—
Net impairment losses recognized in earnings	—	—
Loss on extinguishment of debt	—	(5,292)
Other income, net	2,015	45

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Total other income (loss)	(22,033)	79,308
Income before income taxes	27,140	136,730
Income tax provision	(94)	(15,951)
Net income	27,046	120,779
Net income attributable to non-controlling interests	(389)	(416)
Net income attributable to Starwood Property Trust, Inc.	\$ 26,657	\$ 120,363
Earnings per share data attributable to Starwood Property Trust, Inc.:		
Basic	\$ 0.11	\$ 0.53
Diluted	\$ 0.11	\$ 0.52
Dividends declared per common share	\$ 0.48	\$ 0.48

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

	For the Three Months Ended March 31,	
	2016	2015
Net income	\$ 27,046	\$ 120,779
Other comprehensive (loss) income (net change by component):		
Cash flow hedges	(273)	(263)
Available-for-sale securities	(3,400)	(7,963)
Foreign currency remeasurement	7,401	(8,308)
Other comprehensive gain (loss)	3,728	(16,534)
Comprehensive income	30,774	104,245
Less: Comprehensive income attributable to non-controlling interests	(389)	(416)
Comprehensive income attributable to Starwood Property Trust, Inc.	\$ 30,385	\$ 103,829

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

Common stock Shares	Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income	Total Starwood Property Trust, Inc. Stockholders' Equity	Non- Controlling Interests
241,044,775	\$ 2,410	\$ 4,192,844	3,553,996	\$ (72,381)	\$ (12,286)	\$ 29,729	\$ 4,140,316	\$ 30,627
4,411	—	82	—	—	—	—	82	—
—	—	—	1,052,889	(19,723)	—	—	(19,723)	—
563,503	6	7,061	—	—	—	—	7,067	—
606,166	6	10,917	—	—	—	—	10,923	—
—	—	—	—	—	26,657	—	26,657	389
—	—	—	—	—	(114,572)	—	(114,572)	—
—	—	—	—	—	—	3,728	3,728	—
—	—	—	—	—	—	—	—	(633)
—	—	—	—	—	—	—	—	6,584
—	—	—	—	—	—	—	—	(582)
242,218,855	\$ 2,422	\$ 4,210,904	4,606,885	\$ (92,104)	\$ (100,201)	\$ 33,457	\$ 4,054,478	\$ 36,385

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224,752,053	\$ 2,248	\$ 3,835,725	1,213,750	\$ (23,635)	\$ (9,378)	\$ 55,896	\$ 3,860,856	\$ 22,056
2,303	—	55	—	—	—	—	55	—
—	—	(15,669)	—	—	—	—	(15,669)	—
408,763	4	7,487	—	—	—	—	7,491	—
387,299	3	9,442	—	—	—	—	9,445	—
—	—	—	—	—	120,363	—	120,363	416
—	—	—	—	—	(108,435)	—	(108,435)	—
—	—	—	—	—	—	(16,534)	(16,534)	—
—	—	—	—	—	—	—	—	431
—	—	—	—	—	—	—	—	(359)
225,550,418	\$ 2,255	\$ 3,837,040	1,213,750	\$ (23,635)	\$ 2,550	\$ 39,362	\$ 3,857,572	\$ 22,544

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

	For the Three Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities:		
Net income	\$ 27,046	\$ 120,779
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs, premiums and discounts on secured financing agreements	3,974	3,510
Amortization of convertible debt discount and deferred costs	5,277	5,363
Accretion of net discount on investment securities	(3,373)	(10,603)
Accretion of net deferred loan fees and discounts	(8,696)	(10,179)
Amortization of net discount from secured borrowings on transferred loans	—	4
Share-based compensation	7,067	7,491
Share-based component of incentive fees	10,923	9,445
Change in fair value of fair value option investment securities	(753)	499
Change in fair value of consolidated VIEs	54,038	(5,657)
Change in fair value of servicing rights	6,739	1,542
Change in fair value of loans held-for-sale	(6,891)	(21,131)
Change in fair value of derivatives	23,557	(26,724)
Foreign currency loss, net	402	30,416
Gain on sale of investments and other assets	(245)	(17,198)
Loan loss allowance, net	(761)	317
Depreciation and amortization	16,759	3,692
Earnings from unconsolidated entities	(4,065)	(6,090)
Distributions of earnings from unconsolidated entities	5,729	7,030
Loss on extinguishment of debt	—	5,292
Originations of loans held-for-sale, net of principal collections	(200,433)	(413,027)
Proceeds from sale of loans held-for-sale	256,964	482,009
Changes in operating assets and liabilities:		
Related-party payable, net	(16,965)	(13,078)
Accrued and capitalized interest receivable, less purchased interest	(23,350)	(17,341)
Other assets	8,779	1,067
Accounts payable, accrued expenses and other liabilities	(30,593)	(23,282)

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Net cash provided by operating activities	131,129	114,146
Cash Flows from Investing Activities:		
Origination and purchase of loans held-for-investment	(472,237)	(649,886)
Proceeds from principal collections on loans	192,813	285,741
Proceeds from loans sold	97,882	85,121
Purchase of investment securities	(84,337)	(67,247)
Proceeds from sales of investment securities	—	4,713
Proceeds from principal collections on investment securities	22,344	11,737
Deposit on property acquisition	—	(18,178)
Real estate business combinations, net of cash acquired	(73,639)	—
Proceeds from sale of properties	—	33,056
Purchase of other assets	(2,846)	(435)
Investment in unconsolidated entities	(11)	(28,041)
Distribution of capital from unconsolidated entities	914	11,296
Payments for purchase or termination of derivatives	(12,611)	(6,117)
Proceeds from termination of derivatives	7,910	6,988
Return of investment basis in purchased derivative asset	69	90
(Increase) decrease in restricted cash, net	(24,930)	5,326
Net cash used in investing activities	(348,679)	(325,836)

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

	For the Three Months Ended March 31,	
	2016	2015
Cash Flows from Financing Activities:		
Borrowings under financing agreements	\$ 991,192	\$ 1,320,732
Principal repayments on and repurchases of borrowings	(626,462)	(847,288)
Payment of deferred financing costs	(5,969)	(1,263)
Proceeds from common stock issuances	82	55
Payment of dividends	(114,624)	(108,189)
Contributions from non-controlling interests	6,584	—
Distributions to non-controlling interests	(582)	(359)
Purchase of treasury stock	(19,723)	—
Issuance of debt of consolidated VIEs	596	6,763
Repayment of debt of consolidated VIEs	(55,729)	(51,538)
Distributions of cash from consolidated VIEs	7,545	3,790
Net cash provided by financing activities	182,910	322,703
Net (decrease) increase in cash and cash equivalents	(34,640)	111,013
Cash and cash equivalents, beginning of period	368,815	255,187
Effect of exchange rate changes on cash	1,044	(5,480)
Cash and cash equivalents, end of period	\$ 335,219	\$ 360,720
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 50,254	\$ 48,448
Income taxes paid	922	2,903
Supplemental disclosure of non-cash investing and financing activities:		
Fair value of assets acquired, net of cash	\$ 221,125	\$ —
Fair value of liabilities assumed	147,486	—
Net assets acquired from consolidated VIEs	42,513	—
Dividends declared, but not yet paid	114,572	108,435
Consolidation of VIEs (VIE asset/liability additions)	15,103,275	4,413,608
Deconsolidation of VIEs (VIE asset/liability reductions)	2,591,268	17,841

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of March 31, 2016

(Unaudited)

1. Business and Organization

Starwood Property Trust, Inc. (“STWD” and, together with its subsidiaries, “we” or the “Company”) is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering (“IPO”). We are focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities (“CMBS”), and other commercial real estate investments in both the U.S. and Europe. We refer to the following as our target assets: commercial real estate mortgage loans, preferred equity interests, CMBS and other commercial real estate-related debt investments. Our target assets may also include residential mortgage-backed securities (“RMBS”), certain residential mortgage loans, distressed or non-performing commercial loans, commercial properties subject to net leases and equity interests in commercial real estate. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have three reportable business segments as of March 31, 2016:

- Real estate lending (the “Lending Segment”)—engages primarily in originating, acquiring, financing and managing commercial first mortgages, subordinated mortgages, mezzanine loans, preferred equity, CMBS, RMBS and other real estate and real estate-related debt investments in both the U.S. and Europe that are held-for-investment.
- Real estate investing and servicing (the “Investing and Servicing Segment”)—includes (i) servicing businesses in both the U.S. and Europe that manage and work out problem assets, (ii) an investment business that selectively acquires and manages unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions, and (iv) an investment business that selectively acquires commercial real estate assets, including properties acquired from CMBS trusts. This segment excludes the consolidation of securitization variable interest entities (“VIEs”).
- Real estate property (the “Property Segment”)—engages primarily in acquiring and managing equity interests in stabilized commercial real estate properties, including multi-family properties, that are held for investment.

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

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

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2. Summary of Significant Accounting Policies

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

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

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

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

Refer to the segment data in Note 22 for a presentation of the Investing and Servicing Segment without consolidation of these VIEs.

Basis of Accounting and Principles of Consolidation

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

results of operations, and cash flows have been included.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the "Form 10-K"), as filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the operating results for the full year.

Refer to our Form 10-K for a description of our recurring accounting policies. We have included disclosure in this Note 2 regarding principles of consolidation and other accounting policies that (i) are required to be disclosed quarterly, (ii) we view as critical, or (iii) became significant since December 31, 2015 due to a corporate action or increase in the significance of the underlying business activity.

Variable Interest Entities

We evaluate all of our interests in VIEs for consolidation. When our interests are determined to be variable interests, we assess whether we are deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. Accounting Standards Codification ("ASC") 810, Consolidation, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its

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economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. We consider our variable interests as well as any variable interests of our related parties in making this determination. Where both of these factors are present, we are deemed to be the primary beneficiary and we consolidate the VIE. Where either one of these factors is not present, we are not the primary beneficiary and do not consolidate the VIE.

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

Effective January 1, 2016, we implemented Accounting Standards Update ("ASU") 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis, which specifies that the right to remove the decision maker in a VIE must be exercisable without cause for the decision maker to not be deemed the party that has the power to direct the activities of a VIE. In connection with the implementation of this ASU, we consolidated VIE assets and VIE liabilities from CMBS trusts as of March 31, 2016 where the right to remove the Company as special servicer was not exercisable without cause. Our implementation of the ASU also resulted in the determination that certain unconsolidated entities in which we hold passive non-controlling interests, which prior to the implementation of the ASU were not considered VIEs, are now considered VIEs as the limited partners of these entities do not collectively possess (i) the right to remove the general partner without cause or (ii) the right to participate in significant decisions made by the partnership. We are not the primary beneficiaries of these VIEs as we do not possess the power to direct the activities of the VIE that most significantly impact their economic performance and therefore continue to report our interests within investment in unconsolidated entities on our condensed consolidated balance sheet. We applied the provisions of this ASU using a modified retrospective approach which does not require the restatement of prior period financial statements. There was no cumulative-effect adjustment to equity upon adoption. Refer to Note 14 for further discussion of the impact of our implementation of ASU 2015-02.

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

Our purchased investment securities include CMBS which are unrated and non-investment grade rated securities issued by CMBS trusts. In certain cases, we may contract to provide special servicing activities for these CMBS trusts, or, as holder of the controlling class, we may have the right to name and remove the special servicer for these trusts. In our role as special servicer, we provide services on defaulted loans within the trusts, such as foreclosure or work-out

procedures, as permitted by the underlying contractual agreements. In exchange for these services, we receive a fee. These rights give us the ability to direct activities that could significantly impact the trust's economic performance. However, in those instances where an unrelated third party has the right to unilaterally remove us as special servicer without cause, we do not have the power to direct activities that most significantly impact the trust's economic performance. We evaluated all of our positions in such investments for consolidation.

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

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

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

We separately present the assets and liabilities of our consolidated VIEs as individual line items on our condensed consolidated balance sheets. The liabilities of our consolidated VIEs consist solely of obligations to the bondholders of the related CMBS trusts, and are thus presented as a single line item entitled "VIE liabilities." The assets of our consolidated VIEs consist principally of loans, but at times, also include foreclosed loans which have been temporarily converted into real estate owned ("REO"). These assets in the aggregate are likewise presented as a single line item entitled "VIE assets."

Loans comprise the vast majority of our VIE assets and are carried at fair value due to the election of the fair value option. When an asset becomes REO, it is due to nonperformance of the loan. Because the loan is already at fair value, the carrying value of an REO asset is also initially at fair value. Furthermore, when we consolidate a CMBS trust, any existing REO would be consolidated at fair value. Once an asset becomes REO, its disposition time is relatively short. As a result, the carrying value of an REO generally approximates fair value under GAAP.

In addition to sharing a similar measurement method as the loans in a CMBS trust, the VIE assets as a whole can only be used to settle the obligations of the consolidated VIE. The assets of our VIEs are not individually accessible by the bondholders, which creates inherent limitations from a valuation perspective. Also creating limitations from a valuation perspective is our role as special servicer, which provides us very limited visibility, if any, into the performing loans of a CMBS trust.

REO assets generally represent a very small percentage of the overall asset pool of a CMBS trust. In a new issue CMBS trust there are no REO assets. We estimate that REO assets constitute approximately 4% of our consolidated VIE assets, with the remaining 96% representing loans. However, it is important to note that the fair value of our VIE assets is determined by reference to our VIE liabilities as permitted under ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. In other words, our VIE liabilities are more reliably measurable than the VIE assets, resulting in our current

measurement methodology which utilizes this value to determine the fair value of our VIE assets as a whole. As a result, these percentages are not necessarily indicative of the relative fair values of each of these asset categories if the assets were to be valued individually.

Due to our accounting policy election under ASU 2014-13, separately presenting two different asset categories would result in an arbitrary assignment of value to each, with one asset category representing a residual amount, as opposed to its fair value. However, as a pool, the fair value of the assets in total is equal to the fair value of the liabilities.

For these reasons, the assets of our VIEs are presented in the aggregate.

Fair Value Option

The guidance in ASC 825, Financial Instruments, provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are

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reported in earnings. The decision to elect the fair value option is determined on an instrument by instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in our consolidated balance sheets from those instruments using another accounting method.

We have elected the fair value option for eligible financial assets and liabilities of our consolidated VIEs, loans held-for-sale originated by the Investing and Servicing Segment's conduit platform, purchased CMBS issued by VIEs we could consolidate in the future and certain investments in marketable equity securities. The fair value elections for VIE and securitization related items were made in order to mitigate accounting mismatches between the carrying value of the instruments and the related assets and liabilities that we consolidate at fair value. The fair value elections for mortgage loans held-for-sale originated by the Investing and Servicing Segment's conduit platform were made due to the short-term nature of these instruments. The fair value elections for investments in marketable equity securities were made because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market.

Fair Value Measurements

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

As discussed above, we measure the assets and liabilities of consolidated VIEs at fair value pursuant to our election of the fair value option. The VIEs in which we invest are "static"; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a collateralized debt obligation ("CDO"). This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. Refer to Note 19 for further discussion regarding our fair value measurements.

Loans Held-for-Investment and Provision for Loan Losses

Loans that are held for investment are carried at cost, net of unamortized acquisition premiums or discounts, loan fees, and origination costs as applicable, unless the loans are deemed impaired. We evaluate each loan classified as held for investment for impairment at least quarterly. Impairment occurs when it is deemed probable that we will not be

able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, we record an allowance through the provision for loan losses to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral. Actual losses, if any, could ultimately differ from these estimates.

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

Deferred Financing Costs

In accordance with ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30), effective January 1, 2016 we modified our presentation of deferred financing costs in our condensed consolidated balance sheets to present such costs as a direct deduction from the carrying value of the related debt liability, consistent with debt discounts, rather than as a separate deferred asset as the previous guidance required. Deferred financing costs will continue to be amortized to

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interest expense over the terms of the respective debt agreements. As required by this ASU, we applied this change retrospectively to our prior period condensed consolidated balance sheet presentation.

Earnings Per Share

We present both basic and diluted earnings per share (“EPS”) amounts in our financial statements. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur from (i) our share-based compensation, consisting of unvested restricted stock (“RSAs”) and restricted stock units (“RSUs”), (ii) shares contingently issuable to our Manager, and (iii) the “in-the-money” conversion options associated with our outstanding convertible senior notes (see further discussion in Note 17). Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

Nearly all of the Company’s unvested RSUs and RSAs contain rights to receive non-forfeitable dividends and thus are participating securities. Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities. For the three months ended March 31, 2016 and 2015, the two-class method resulted in the most dilutive EPS calculation.

Use of Estimates

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

Reclassifications

Certain prior period amounts have been reclassified to conform to our current period presentation. In that regard, we have reclassified revenues of \$2.7 million previously reported in other revenues to rental income in our condensed consolidated statement of operations for the three months ended March 31, 2015. Expenses of \$1.7 million previously reported in other expense have been reclassified to costs of rental operations in our condensed consolidated statement of operations for the three months ended March 31, 2015.

Additionally, in connection with our implementation of ASU 2015-03 discussed above, we reclassified deferred financing costs of \$38.3 million and \$1.4 million previously reported in other assets to secured financing agreements, net and convertible senior notes, net, respectively, within our condensed consolidated balance sheet as of December 31, 2015.

Recent Accounting Developments

On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, Revenue from Contracts with Customers, which establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. At issuance, the ASU was effective for the first interim or annual period beginning after December 15, 2016. On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year, resulting in the ASU becoming effective for the first interim or annual period beginning after December 15, 2017. Early application, which was not permissible under the initial effectiveness timeline, is now permissible though no earlier than as of the first interim or annual period beginning after December 15, 2016. We do not expect the application of this ASU to materially impact the Company.

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On January 5, 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities, which impacts the accounting for equity investments, financial liabilities under the fair value option, and disclosure requirements for financial instruments. The ASU shall be applied prospectively and is effective for annual periods, and interim periods therein, beginning after December 15, 2017. Early application is not permitted. We are in the process of assessing what impact this ASU will have on the Company.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes a right-of-use model for lessee accounting which results in the recognition of most leased assets and lease liabilities on the balance sheet of the lessee. Lessor accounting was not significantly changed. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2018 by applying a modified retrospective approach. Early application is permitted. We are in the process of assessing what impact this ASU will have on the Company.

On March 14, 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815) – Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that the change in counterparty to a derivative designated in a hedging relationship, in and of itself, would not require that the hedging relationship be de-designated for hedge accounting purposes. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On March 15, 2016, the FASB issued ASU 2016-07, Investments – Equity Method and Joint Ventures (Topic 323) – Simplifying the Transition to the Equity Method of Accounting, which amends existing guidance to require that in instances where an investee is transitioning from the cost method of accounting to the equity method of accounting due to an increase in ownership level or degree of influence, the investee applies the equity method of accounting prospectively from the date significant influence is obtained, whereas existing guidance requires an investee to retrospectively apply the equity method of accounting for all previous periods in which the investment was held. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On March 17, 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amends the principal-versus-agent implementation guidance and illustrations in the FASB’s revenue recognition standard issued in ASU 2014-09. The ASU provides further guidance to assist an entity in the determination of whether the nature of its promise to its customer is to provide the underlying goods or services, meaning the entity is a principal, or to arrange for a third party to provide the underlying goods or services, meaning the entity is an agent. The ASU is effective for the first interim or annual period beginning after December 15, 2017. Early application is permissible though no earlier than the first interim or annual period beginning after December 15, 2016. We do not expect the application of this ASU to materially impact the Company.

On March 30, 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting, which seeks to simplify the accounting for employee share-based payment transactions, including the accounting for associated income taxes and forfeitures. The ASU is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted in any interim or annual period. We do not expect the application of this ASU to materially impact the Company.

On April 14, 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing, which amends guidance and illustrations in the FASB's revenue recognition standard issued in ASU 2014-09 regarding the identification of performance obligations and the implementation guidance on licensing arrangements. The ASU is effective for the first interim or annual period beginning after December 15, 2017. Early application is permissible though no earlier than the first interim or annual period beginning after December 15, 2016. We do not expect the application of this ASU to materially impact the Company.

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3. Acquisitions

Woodstar Portfolio Acquisition

During the three months ended March 31, 2016, we acquired 12 of the 32 affordable housing communities which comprise our “Woodstar Portfolio.” The Woodstar Portfolio in its entirety is comprised of 8,948 units concentrated primarily in the Tampa, Orlando and West Palm Beach metropolitan areas and is 98% occupied.

The 12 affordable housing communities acquired during the three months ended March 31, 2016 comprise 3,082 units with total assets of \$227.4 million and assumed liabilities of \$147.5 million, which includes federal, state and county sponsored financing. Refer to Note 9 for further discussion of these assumed debt facilities.

For the period from their respective acquisition dates through March 31, 2016, we recognized revenues of \$5.6 million and a net loss of \$0.8 million related to the 12 properties acquired into the Woodstar Portfolio. Such net loss includes (i) depreciation and amortization expense of \$3.2 million and (ii) one-time acquisition-related costs, such as legal and due diligence costs, of approximately \$0.6 million. No goodwill was recognized in connection with the Woodstar Portfolio acquisition as the purchase price equaled the fair value of the net assets acquired.

The remaining two properties in the Woodstar Portfolio not acquired prior to March 31, 2016 were acquired in April 2016. As of May 9, 2016, the initial accounting for these acquisitions was not sufficiently complete to allow for inclusion of the ASC 805 disclosures herein. Refer to Note 23 for further discussion.

Investing and Servicing Segment Property Portfolio

During the three months ended March 31, 2016, our Investing and Servicing Segment acquired controlling interests in two U.S. commercial real estate properties from CMBS trusts for \$21.6 million. These properties, aggregated with the controlling interests in 14 U.S. commercial real estate properties acquired from CMBS trusts during the year ended December 31, 2015 for \$138.7 million, comprise the Investing and Servicing Segment Property Portfolio (the “REO Portfolio”). When these properties are acquired from CMBS trusts that are consolidated as VIEs on our balance sheet, these acquisitions are reflected as repayment of debt of consolidated VIEs in our consolidated statement of cash flows. No goodwill was recognized in connection with the REO Portfolio acquisitions as the purchase price equaled the fair value of the net assets acquired.

Ireland Portfolio Acquisition

During 2015, we acquired 12 net leased fully occupied office properties and one multi-family property all located in Dublin, Ireland. Collectively, these 13 properties comprise our “Ireland Portfolio”.

The Ireland Portfolio, which collectively comprises approximately 600,000 square feet, included total assets of \$518.2 million and assumed debt of \$283.0 million at acquisition. Following our acquisition, all assumed debt was immediately extinguished and replaced with new financing of \$328.6 million from the Ireland Portfolio Mortgage (as set forth in Note 9). All properties within the Ireland Portfolio were acquired from entities controlled by the same third party investment fund. No goodwill was recognized in connection with the Ireland Portfolio acquisition as the purchase price equaled the fair value of the net assets acquired.

Purchase Price Allocations of Acquisitions

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

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The following table summarizes the identified assets acquired and liabilities assumed at the respective acquisition dates (amounts in thousands):

	2016		2015		Ireland
	Woodstar	REO	Woodstar	REO	Portfolio
	Portfolio	Portfolio	Portfolio	Portfolio	Portfolio
Assets acquired:					
Cash and cash equivalents	\$ 6,254	\$ —	\$ —	\$ —	\$ —
Restricted cash	—	—	—	—	10,829
Properties	198,693	20,707	339,040	128,218	445,369
Intangible assets	6,837	5,558	11,337	19,381	59,529
Other assets	15,595	103	652	4,973	2,508
Total assets acquired	227,379	26,368	351,029	152,572	518,235
Liabilities assumed:					
Accounts payable, accrued expenses and other liabilities	18,070	1,715	18,030	6,998	17,552
Secured financing agreements	129,416	—	8,982	—	283,010
Total liabilities assumed	147,486	1,715	27,012	6,998	300,562
Non-controlling interests	—	3,084	—	6,904	—
Net assets acquired	\$ 79,893	\$ 21,569	\$ 324,017	\$ 138,670	\$ 217,673

Pro-Forma Operating Data

The pro-forma revenues and net income attributable to the Company for the three months ended March 31, 2016 and 2015, assuming the 30 properties acquired within the Woodstar Portfolio and all the properties within the REO Portfolio and the Ireland Portfolio were acquired on January 1, 2014 for the 2015 acquisitions and January 1, 2015 for the 2016 acquisitions, are as follows (amounts in thousands, except per share amounts):

	For the Three Months	
	Ended	
	March 31,	
	2016	2015
Revenues	\$ 198,616	\$ 211,448
Net income attributable to STWD	29,153	115,025
Net income per share - Basic	0.12	0.51
Net income per share - Diluted	0.12	0.50

Pro-forma net income was adjusted to include the following estimated incremental management fees the combined entity would have incurred (amounts in thousands):

	For the Three Months Ended March 31,	
	2016	2015
Management fee expense addition	\$ 169	\$ 2,065

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4. Loans

Our loans held-for-investment are accounted for at amortized cost and our loans held-for-sale are accounted for at the lower of cost or fair value, unless we have elected the fair value option. The following tables summarize our investments in mortgages and loans by subordination class as of March 31, 2016 and December 31, 2015 (amounts in thousands):

	Carrying Value	Face Amount	Weighted Average Coupon		Weighted Average Life ("WAL") (years)(3)
March 31, 2016					
First mortgages (1)	\$ 5,030,487	\$ 5,081,967	5.9	%	2.4
Subordinated mortgages (2)	392,315	414,875	8.5	%	3.2
Mezzanine loans (1)	770,120	754,284	9.9	%	2.3
Total loans held-for-investment	6,192,922	6,251,126			
Loans held-for-sale, fair value option elected	154,225	151,970	5.2	%	9.8
Loans transferred as secured borrowings	88,512	89,905	6.1	%	2.2
Total gross loans	6,435,659	6,493,001			
Loan loss allowance (loans held-for-investment)	(5,268)	—			
Total net loans	\$ 6,430,391	\$ 6,493,001			
December 31, 2015					
First mortgages (1)	\$ 4,723,852	\$ 4,776,576	6.0	%	2.7
Subordinated mortgages (2)	392,563	416,713	8.5	%	3.4
Mezzanine loans (1)	862,693	850,024	9.9	%	2.5
Total loans held-for-investment	5,979,108	6,043,313			
Loans held-for-sale, fair value option elected	203,865	203,710	4.9	%	9.8
Loans transferred as secured borrowings	86,573	88,000	6.1	%	2.4
Total gross loans	6,269,546	6,335,023			
Loan loss allowance (loans held-for-investment)	(6,029)	—			
Total net loans	\$ 6,263,517	\$ 6,335,023			

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- (1) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan. The application of this methodology resulted in mezzanine loans with carrying values of \$1.0 billion and \$930.0 million being classified as first mortgages as of March 31, 2016 and December 31, 2015, respectively.
- (2) Subordinated mortgages include B-Notes and junior participation in first mortgages where we do not own the senior A-Note or senior participation. If we own both the A-Note and B-Note, we categorize the loan as a first mortgage loan.
- (3) Represents the WAL of each respective group of loans as of the respective balance sheet date. The WAL of each individual loan is calculated using amounts and timing of future principal payments, as projected at origination.

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As of March 31, 2016, approximately \$5.3 billion, or 84.9%, of our loans held-for-investment were variable rate and paid interest principally at LIBOR plus a weighted-average spread of 5.9%. The following table summarizes our investments in floating rate loans (amounts in thousands):

Index	March 31, 2016		December 31, 2015	
	Base Rate	Carrying Value	Base Rate	Carrying Value
One-month LIBOR USD	0.4373 %	\$ 555,960	0.4295 %	\$ 438,641
Three-month LIBOR GBP	0.5881 %	366,478	0.5904 %	375,467
LIBOR floor	0.15 - 3.00 % (1)	4,333,422	0.15 - 3.00 % (1)	4,237,947
Total		\$ 5,255,860		\$ 5,052,055

(1) The weighted-average LIBOR floor was 0.32% and 0.31% as of March 31, 2016 and December 31, 2015, respectively.

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

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

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

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

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As of March 31, 2016, the risk ratings for loans subject to our rating system, which excludes loans for which the fair value option has been elected, by class of loan were as follows (amounts in thousands):

Risk Rating Category	Balance Sheet Classification Loans Held-For-Investment			Cost		Loans Transferred		% of	
	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Recovery Loans	Loans Held-For-Sale	As Secured Borrowings	Total	Total Loans	
1	\$ 6,533	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,533	0.1	%
2	477,910	85,363	98,656	—	—	—	661,929	10.3	%
3	4,331,630	286,702	546,746	—	—	88,512	5,253,590	81.6	%
4	206,252	20,250	124,718	—	—	—	351,220	5.5	%
5	—	—	—	—	—	—	—	—	%
N/A	—	—	—	8,162	154,225	—	162,387	2.5	%
	\$ 5,022,325	\$ 392,315	\$ 770,120	\$ 8,162	\$ 154,225	\$ 88,512	\$ 6,435,659	100.0	%

As of December 31, 2015, the risk ratings for loans subject to our rating system by class of loan were as follows (amounts in thousands):

Risk Rating Category	Balance Sheet Classification Loans Held-For-Investment			Cost		Loans Transferred		% of	
	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Recovery Loans	Loans Held-For-Sale	As Secured Borrowings	Total	Total Loans	
1	\$ 664	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 664	—	%
2	496,372	88,857	90,449	—	—	—	675,678	10.8	%
3	3,979,247	270,435	651,204	—	—	86,573	4,987,459	79.6	%
4	247,569	33,271	121,040	—	—	—	401,880	6.4	%
5	—	—	—	—	—	—	—	—	%
N/A	—	—	—	—	203,865	—	203,865	3.2	%
	\$ 4,723,852	\$ 392,563	\$ 862,693	\$ —	\$ 203,865	\$ 86,573	\$ 6,269,546	100.0	%

After completing our impairment evaluation process, we concluded that no impairment charges were required on any individual loans held-for-investment as of March 31, 2016 or December 31, 2015, as we expect to collect all outstanding principal and interest. During the three months ended March 31, 2016, our Investing and Servicing

Segment acquired an \$8.2 million non-performing commercial mortgage loan. With the exception of this loan, none of our loans were 90 days or greater past due as of March 31, 2016.

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

	For the Three Months Ended March 31,	
	2016	2015
Allowance for loan losses at January 1	\$ 6,029	\$ 6,031
Provision for loan losses	(761)	317
Charge-offs	—	—
Recoveries	—	—
Allowance for loan losses at March 31	\$ 5,268	\$ 6,348
Recorded investment in loans related to the allowance for loan loss	\$ 351,220	\$ 315,881

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

	For the Three Months Ended March 31,	
	2016	2015
Balance at January 1	\$ 6,263,517	\$ 6,300,285
Acquisitions/originations/additional funding	674,712	1,063,108
Capitalized interest (1)	21,290	17,490
Basis of loans sold (2)	(354,601)	(567,033)
Loan maturities/principal repayments	(195,073)	(320,379)
Discount accretion/premium amortization	8,696	10,179
Changes in fair value	6,891	21,131
Unrealized foreign currency remeasurement loss	(12,984)	(45,907)
Change in loan loss allowance, net	761	(317)
Transfer to/from other asset classifications	17,182	1,038
Balance at March 31	\$ 6,430,391	\$ 6,479,595

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

(2) See Note 11 for additional disclosure on these transactions.

5. Investment Securities

Investment securities were comprised of the following as of March 31, 2016 and December 31, 2015 (amounts in thousands):

	Carrying Value as of	
	March 31, 2016	December 31, 2015
RMBS, available-for-sale	\$ 210,898	\$ 176,224
CMBS, fair value option (1)	1,012,618	1,038,200
Held-to-maturity (“HTM”) securities	327,831	321,244
Equity security, fair value option	13,911	14,498
Subtotal—Investment securities	1,565,258	1,550,166
VIE eliminations (1)	(915,894)	(825,219)
Total investment securities	\$ 649,364	\$ 724,947

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

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

	Available-for-sale RMBS	CMBS	CMBS, fair value option	HTM Securities	Equity Security	Total
Three Months Ended March 31, 2016						
Purchases	\$ 41,470	\$ —	\$ 33,173	\$ 9,694	\$ —	\$ 84,337
Sales	—	—	—	—	—	—
Principal collections	6,811	—	12,303	3,230	—	22,344
Three Months Ended March 31, 2015						
Purchases	\$ —	\$ —	\$ 8,738	\$ 58,509	\$ —	\$ 67,247
Sales	—	—	4,713	—	—	4,713
Principal collections	11,487	224	1	25	—	11,737

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RMBS, Available-for-Sale

The Company classified all of its RMBS as available-for-sale as of March 31, 2016 and December 31, 2015. These RMBS are reported at fair value in the balance sheet with changes in fair value recorded in accumulated other comprehensive income (“AOCI”).

The tables below summarize various attributes of our investments in available-for-sale RMBS as of March 31, 2016 and December 31, 2015 (amounts in thousands):

	Purchase Amortized Cost	Credit OTTI	Recorded Amortized Cost	Unrealized Gains or (Losses) Recognized in AOCI			Net Fair Value Adjustment	Fair Value
				Non-Credit OTTI	Gross Unrealized Gains	Gross Unrealized Losses		
March 31, 2016 RMBS	\$ 187,176	\$ (10,185)	\$ 176,991	\$ (335)	\$ 34,242	\$ —	\$ 33,907	\$ 210,898
December 31, 2015 RMBS	\$ 149,102	\$ (10,185)	\$ 138,917	\$ (340)	\$ 37,647	\$ —	\$ 37,307	\$ 176,224

	Weighted Average Coupon (1)	Weighted Average Rating	WAL (Years) (2)
March 31, 2016 RMBS	1.7	% CCC+	6.1
December 31, 2015 RMBS	1.3	% B-	6.2

(1) Calculated using the March 31, 2016 and December 31, 2015 one-month LIBOR rate of 0.437% and 0.430%, respectively, for floating rate securities.

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

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As of March 31, 2016, approximately \$159.4 million, or 75.6%, of our RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 1.02%. As of December 31, 2015, approximately \$122.7 million, or 69.7%, of our RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.43%. We purchased all of the RMBS at a discount that will be accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of these discounts.

The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS as of March 31, 2016 and December 31, 2015 (amounts in thousands):

	March 31, 2016	December 31, 2015
Principal balance	\$ 327,167	\$ 233,976
Accretable yield	(67,626)	(68,345)
Non-accretable difference	(82,550)	(26,714)
Total discount	(150,176)	(95,059)
Amortized cost	\$ 176,991	\$ 138,917

The principal balance of credit deteriorated RMBS was \$293.8 million and \$199.0 million as of March 31, 2016 and December 31, 2015, respectively. Accretable yield related to these securities totaled \$57.4 million and \$57.7 million as of March 31, 2016 and December 31, 2015, respectively.

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The following table discloses the changes to accretable yield and non-accretable difference for our RMBS during the three months ended March 31, 2016 (amounts in thousands):

Three Months Ended March 31, 2016	Accretable Yield	Non-Accretable Difference
Balance as of January 1, 2016	\$ 68,345	\$ 26,714
Accretion of discount	(3,415)	—
Principal write-downs	—	(289)
Purchases	(618)	59,439
Sales	—	—
OTTI	—	—
Transfer to/from non-accretable difference	3,314	(3,314)
Balance as of March 31, 2016	\$ 67,626	\$ 82,550

Subject to certain limitations on durations, we have allocated an amount to invest in RMBS that cannot exceed 10% of our total assets excluding the Investing and Servicing VIEs. We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was \$0.4 million for both the three months ended March 31, 2016 and 2015, which has been recorded as management fees in the accompanying condensed consolidated statements of operations.

The following table presents the gross unrealized losses and estimated fair value of any available-for-sale securities that were in an unrealized loss position as of March 31, 2016 and December 31, 2015, and for which OTTI (full or partial) have not been recognized in earnings (amounts in thousands):

	Estimated Fair Value		Unrealized Losses	
	Securities with a loss less than 12 months	Securities with a loss greater than 12 months	Securities with a loss less than 12 months	Securities with a loss greater than 12 months
As of March 31, 2016				
RMBS	\$ 15,466	\$ 643	\$ (191)	\$ (144)
As of December 31, 2015				
RMBS	\$ 17,026	\$ 653	\$ (180)	\$ (160)

As of March 31, 2016 and December 31, 2015, there were four securities and five securities, respectively, with unrealized losses reflected in the table above. After evaluating these securities and recording adjustments for credit-related OTTI, we concluded that the remaining unrealized losses reflected above were noncredit-related and would be recovered from the securities' estimated future cash flows. We considered a number of factors in reaching

this conclusion, including that we did not intend to sell the securities, it was not considered more likely than not that we would be forced to sell the securities prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Credit losses, which represent most of the OTTI we record on securities, are calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to (ii) our amortized cost basis. Significant judgment is used in projecting cash flows for our non-agency RMBS. As a result, actual income and/or impairments could be materially different from what is currently projected and/or reported.

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CMBS, Fair Value Option

As discussed in the “Fair Value Option” section of Note 2 herein, we elect the fair value option for the Investing and Servicing Segment’s CMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of March 31, 2016, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, were \$1.0 billion and \$4.6 billion, respectively. The \$1.0 billion fair value balance represents our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value (\$915.9 million at March 31, 2016, which includes \$120.9 million of CMBS consolidated as a result of our implementation of ASU 2015-02) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS.

During the three months ended March 31, 2016, we purchased \$46.6 million of CMBS, for which we elected the fair value option. Due to our consolidation of securitization VIEs, \$13.4 million of this amount is eliminated and reflected primarily as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows.

As of March 31, 2016, none of our CMBS where we have elected the fair value option were variable rate. The table below summarizes various attributes of our investment in fair value option CMBS as of March 31, 2016 and December 31, 2015 (amounts in thousands):

	Weighted Average Coupon	Weighted Average Rating (1)	WAL (Years) (2)
March 31, 2016 CMBS, fair value option	5.5	% B-	2.0
December 31, 2015 CMBS, fair value option	3.9	% CCC+	7.4

(1) As of March 31, 2016 and December 31, 2015, excludes \$8.7 million and \$51.3 million, respectively, in fair value option CMBS that are not rated.

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

HTM Securities

The table below summarizes unrealized gains and losses of our investments in HTM securities as of March 31, 2016 and December 31, 2015 (amounts in thousands):

	Net Carrying Amount (Amortized Cost)	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
March 31, 2016				
CMBS	\$ 308,323	\$ 29	\$ (14,573)	\$ 293,779
Preferred interests	19,508	1,884	—	21,392
Total	\$ 327,831	\$ 1,913	\$ (14,573)	\$ 315,171
December 31, 2015				
CMBS	\$ 301,858	\$ 257	\$ (5,651)	\$ 296,464
Preferred interests	19,386	—	(595)	18,791
Total	\$ 321,244	\$ 257	\$ (6,246)	\$ 315,255

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The table below summarizes the maturities of our HTM CMBS and our HTM preferred equity interests in limited liability companies that own commercial real estate as of March 31, 2016 (amounts in thousands):

	CMBS	Preferred Interests	Total
Less than one year	\$ 200,603	\$ —	\$ 200,603
One to three years	107,720	—	107,720
Three to five years	—	—	—
Thereafter	—	19,508	19,508
Total	\$ 308,323	\$ 19,508	\$ 327,831

Equity Security, Fair Value Option

During 2012, we acquired 9,140,000 ordinary shares from a related-party in Starwood European Real Estate Finance Limited (“SEREF”), a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange. We have elected to report the investment using the fair value option because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market, and also due to potential lags in reporting resulting from differences in the respective regulatory requirements. The fair value of the investment remeasured in USD was \$13.9 million and \$14.5 million as of March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016, our shares represent an approximate 3% interest in SEREF.

6. Properties

Our properties include the Woodstar Portfolio, the REO Portfolio and the Ireland Portfolio as discussed in Note 3. The below table summarizes our properties held as of March 31, 2016 and December 31, 2015 (dollar amounts in thousands):

Property Segment	Depreciable Life	March 31, 2016	December 31, 2015
Land	—	\$ 295,345	\$ 236,545
Land improvements	5 – 10 years	19,900	11,044
Buildings	30 – 40 years	661,113	516,117
Furniture & fixtures	3 – 7 years	19,592	11,980
Investing and Servicing Segment			
Land	—	49,736	39,103

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Buildings	20 – 40 years	120,718	110,815
Building improvements	7 – 15 years	3,688	1,709
Furniture & fixtures	3 – 5 years	892	680
Tenant improvements	3 – 5 years	239	67
Properties, cost		1,171,223	928,060
Less: accumulated depreciation		(16,248)	(8,835)
Properties, net		\$ 1,154,975	\$ 919,225

In March 2015, the Investing and Servicing Segment sold an operating property that we had previously acquired from a CMBS trust, which resulted in a \$17.1 million gain on sale of investments and other assets in our condensed consolidated statement of operations for the three months ended March 31, 2015. There were no properties sold during the three months ended March 31, 2016.

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7. Investment in Unconsolidated Entities

The below table summarizes our investments in unconsolidated entities as of March 31, 2016 and December 31, 2015 (dollar amounts in thousands):

	Participation / Ownership % (1)	Carrying value as of March 31, 2016	December 31, 2015
Equity method:			
Retail Fund	33%	\$ 121,297	\$ 122,454
Investor entity which owns equity in an online real estate auction company	50%	23,982	23,972
Equity interests in commercial real estate	16% - 43%	28,106	28,230
Various	25% - 50%	5,996	6,376
		179,381	181,032
Cost method:			
Investment funds which own equity in a loan servicer and other real estate assets	4% - 6%	9,225	9,225
Various	0% - 3%	8,031	8,944
		17,256	18,169
		\$ 196,637	\$ 199,201

(1) None of these investments are publicly traded and therefore quoted market prices are not available.

There were no differences between the carrying value of our equity method investments and the underlying equity in the net assets of the investees as of March 31, 2016.

8. Goodwill and Intangible Assets

Goodwill

Goodwill at March 31, 2016 and December 31, 2015 represents the excess of consideration transferred over the fair value of net assets of LNR Property LLC (“LNR”) acquired on April 19, 2013. The goodwill recognized is attributable to value embedded in LNR’s existing platform, which includes an international network of commercial real estate asset managers, work-out specialists, underwriters and administrative support professionals as well as proprietary historical performance data on commercial real estate assets.

Intangible Assets

Servicing Rights Intangibles

In connection with the LNR acquisition, we identified domestic and European servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. All of our servicing fees are specified by these Pooling and Servicing Agreements. At March 31, 2016 and December 31, 2015, the balance of the domestic servicing intangible was net of \$27.4 million and \$11.8 million, respectively, that was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs. Before VIE consolidation, as of March 31, 2016 and December 31, 2015, the domestic servicing intangible had a balance of \$122.9 million and \$131.5 million, respectively, which represents our economic interest in this asset.

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Lease Intangibles

In connection with our acquisitions of commercial real estate, we recognized in-place lease intangible assets and favorable lease intangible assets associated with certain noncancelable operating leases of the acquired properties. The following table summarizes our intangible assets, which are comprised of servicing rights intangibles and lease intangibles, as of March 31, 2016 and December 31, 2015 (amounts in thousands):

	As of March 31, 2016			As of December 31, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Domestic servicing rights, at fair value	\$ 95,492	\$ —	\$ 95,492	\$ 119,698	\$ —	\$ 119,698
European servicing rights (1)	30,778	(28,656)	2,122	31,593	(28,967)	2,626
In-place lease intangible assets	88,364	(19,899)	68,465	74,983	(8,898)	66,085
Favorable lease intangible assets	15,914	(1,517)	14,397	14,103	(942)	13,161
Total net intangible assets	\$ 230,548	\$ (50,072)	\$ 180,476	\$ 240,377	\$ (38,807)	\$ 201,570

(1) The fair value as of March 31, 2016 and December 31, 2015 was \$4.9 million and \$5.3 million, respectively.

The following table summarizes the activity within intangible assets for the three months ended March 31, 2016 (amounts in thousands):

	Domestic Servicing Rights	European Servicing Rights	In-place Lease Intangible Assets	Favorable Lease Intangible Assets	Total
Balance as of January 1, 2016	\$ 119,698	\$ 2,626	\$ 66,085	\$ 13,161	\$ 201,570
Impact of ASU 2015-02 Adoption (1)	(17,467)	—	—	—	(17,467)
Acquisition of additional Woodstar Portfolio properties	—	—	6,837	—	6,837
Acquisition of additional REO Portfolio properties	—	—	4,290	1,268	5,558
Amortization	—	(435)	(10,716)	(528)	(11,679)
Foreign exchange (loss) gain	—	(69)	1,969	496	2,396
Changes in fair value due to changes in inputs and assumptions	(6,739)	—	—	—	(6,739)

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Balance as of March 31, 2016	\$ 95,492	\$ 2,122	\$ 68,465	\$ 14,397	\$ 180,476
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(1) As discussed in Notes 2 and 14, our implementation of ASU 2015-02 resulted in the consolidation of certain CMBS trusts effective January 1, 2016, which required the elimination of \$17.5 million of domestic servicing rights associated with these newly consolidated trusts.

The following table sets forth the estimated aggregate amortization of our European servicing rights, in-place lease intangible assets and favorable lease intangible assets for the next five years and thereafter (amounts in thousands):

2016 (remainder of)	\$ 18,931
2017	11,622
2018	10,080
2019	8,663
2020	6,708
Thereafter	28,980
Total	\$ 84,984

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9. Secured Financing Agreements

The following table is a summary of our secured financing agreements in place as of March 31, 2016 and December 31, 2015 (dollars in thousands):

	Current	Extended		Pledged Asset Carrying Value	Maximum Facility Size	Carrying value at March 31, 2016	December 31, 2015
	Maturity	Maturity(a)	Pricing				
Lender 1 Repo 1	(b)	(b)	LIBOR + 1.85% to 5.25%	\$ 2,155,043	\$ 1,600,000	\$ 1,340,634	\$ 975,735
Lender 2 Repo 1	Oct 2017	Oct 2020	LIBOR + 1.75% to 2.75%	285,237	500,000	175,912	233,705
Lender 3 Repo 1	May 2017	May 2019	LIBOR + 2.50% to 2.85%	152,414	109,745	109,745	131,997
Lender 4 Repo 1	Oct 2016	Oct 2017	LIBOR + 2.00%	385,003	301,518	301,518	309,498
Lender 4 Repo 2	Dec 2018	Dec 2020	LIBOR + 2.50%	192,257	1,000,000(c)	151,999	—
Lender 6 Repo 1	Aug 2018	N/A	LIBOR + 2.50% to 3.00%	702,162	500,000	413,104	491,263
Lender 7 Secured Financing	Jul 2018	Jul 2019	LIBOR + 2.75% (d)	109,285	650,000 (e)	—	38,055
Conduit Repo 1	Sep 2016	N/A	LIBOR + 1.95% to 3.35%	—	150,000	—	80,741
Conduit Repo 2	Nov 2016	N/A	LIBOR + 2.10%	—	150,000	—	—
Conduit Repo 3	Feb 2018	Feb 2019	LIBOR + 2.10%	96,986	150,000	71,599	66,041
Conduit Repo 4	Oct 2017	Oct 2020	LIBOR + 2.25%	16,842	100,000	12,188	—
CMBS Repo 1	(f)	(f)	LIBOR + 1.90%	32,710	21,354	21,354	—
CMBS Repo 2	Dec 2017 (g)	N/A (g)	LIBOR + 2.35% to 2.70%	132,740 365,199	100,238 260,777	100,238 260,777	120,850 243,434

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CMBS Repo 3			LIBOR + 1.40% to 1.85%				
RMBS Repo 1	(h)	N/A	LIBOR + 1.90%	168,001	125,000	71,707	2,000
Investing and Servicing Segment Property Mortgages Ireland Portfolio Mortgage Woodstar Portfolio Mortgages Woodstar Portfolio Government Financing	June 2018 to Dec 2025	N/A	Various	133,136	106,055	100,715	82,964
	May 2020	N/A	EURIBOR + 1.69%	500,086	334,623	334,623	319,322
	Nov 2025 to Jan 2026	N/A	3.72% to 3.81%	338,281	248,630	248,630	248,630
	Mar 2026 to June 2049	N/A	1.00% to 5.00%	296,321	135,437	135,437	8,982
Term Loan FHLB Advances	Apr 2020	N/A	LIBOR + 2.75% (d)	3,015,838	656,578	656,578	658,270
	Nov 2016	N/A	LIBOR + 0.37%	10,746	9,250	9,250	9,250
				\$ 9,088,287	\$ 7,209,205	4,516,008	4,020,737
Unamortized premium (discount), net						1,099	(1,702)
Unamortized deferred financing costs						(36,147)	(38,336)
						\$ 4,480,960	\$ 3,980,699

- (a) Subject to certain conditions as defined in the respective facility agreement.
- (b) Maturity date for borrowings collateralized by loans is January 2017 before extension options and January 2019 assuming exercise of initial extension options. Borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions and not to exceed January 2023.
- (c) The initial maximum facility size of \$600.0 million may be increased to \$1.0 billion at our option, subject to certain conditions.
- (d) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement. The term loan is also subject to a 75 basis point floor.
- (e) The initial maximum facility size of \$450.0 million may be increased to \$650.0 million at our option, subject to certain conditions.
- (f) Facility carries a rolling 11 month term which may reset monthly with the lender's consent not to exceed December 2018. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of March 31, 2016.

- (g) Facility carries a rolling 12 month term which may reset monthly with the lender's consent. Current maturity is March 2017. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of March 31, 2016.
- (h) The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 2017.

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

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During the three months ended March 31, 2016, we executed two mortgage facilities with aggregate borrowings of \$16.0 million to finance commercial real estate acquired by our Investing and Servicing Segment. As of March 31, 2016, these facilities carry a remaining weighted average term of 4.9 years. One of the facilities carries a floating annual interest rate of LIBOR + 2.25% while the other facility carries a fixed annual interest rate of 3.00%.

During the three months ended March 31, 2016, we assumed 16 federal, state and county sponsored mortgage facilities (“Woodstar Portfolio Government Financing”) associated with certain properties acquired in our Woodstar Portfolio with aggregate outstanding balances of \$126.7 million as of the acquisition dates.

In January 2016, we amended the CMBS Repo 2 facility to extend the maturity from December 2016 to December 2017.

In March 2016, we amended the Lender 2 Repo 1 facility to upsize available borrowings from \$500.0 million to \$600.0 million. This additional \$100.0 million of borrowing capacity is exclusively for the financing of conduit mortgage loans and therefore this component of the Lender 2 Repo 1 facility is separately presented in the secured financing agreements table above as Conduit Repo 4.

Our secured financing agreements contain certain financial tests and covenants. Should we breach certain of these covenants it may restrict our ability to pay dividends in the future. As of March 31, 2016, we were in compliance with all such covenants.

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

	Repurchase Agreements	Other Secured Financing	Total
2016 (remainder of)	\$ 353,820	\$ 16,384	\$ 370,204
2017	1,186,779	9,662	1,196,441
2018	641,989	29,373	671,362
2019	594,290	19,196	613,486
2020	174,303	979,305	1,153,608

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Thereafter	79,594	431,313	510,907
Total	\$ 3,030,775	\$ 1,485,233	\$ 4,516,008

Secured financing maturities for 2016 primarily relate to \$221.9 million on the Lender 6 Repo 1 facility and \$71.6 million on the Conduit Repo 3 facility.

For the three months ended March 31, 2016 and 2015, approximately \$3.9 million and \$3.5 million, respectively, of amortization of deferred financing costs from secured financing agreements was included in interest expense on our condensed consolidated statements of operations.

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The following table sets forth our outstanding balance of repurchase agreements related to the following asset collateral classes as of March 31, 2016 and December 31, 2015 (amounts in thousands):

Class of Collateral	March 31, 2016	December 31, 2015
Loans held-for-investment	\$ 2,492,912	\$ 2,142,198
Loans held-for-sale	83,787	146,782
Investment securities	454,076	366,284
	\$ 3,030,775	\$ 2,655,264

We seek to mitigate risks associated with our repurchase agreements by managing risk related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value. The margin call provisions under the majority of our repurchase facilities, consisting of 59% of these agreements, do not permit valuation adjustments based on capital markets activity. Instead, margin calls on these facilities are limited to collateral-specific credit marks. To monitor credit risk associated with the performance and value of our loans and investments, our asset management team regularly reviews our investment portfolios and is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary. For repurchase agreements containing margin call provisions for general capital markets activity, approximately 27% of these pertain to our loans held-for-sale, for which we manage credit risk through the purchase of credit index instruments. We further seek to manage risks associated with our repurchase agreements by matching the maturities and interest rate characteristics of our loans with the related repurchase agreements.

10. Convertible Senior Notes

On October 8, 2014, we issued \$431.3 million of 3.75% Convertible Senior Notes due 2017 (the “2017 Notes”). On February 15, 2013, we issued \$600.0 million of 4.55% Convertible Senior Notes due 2018 (the “2018 Notes”). On July 3, 2013, we issued \$460.0 million of 4.00% Convertible Senior Notes due 2019 (the “2019 Notes”). The following summarizes the unsecured convertible senior notes (collectively, the “Convertible Notes”) outstanding as of March 31, 2016 (amounts in thousands, except rates):

	Principal Amount	Coupon Rate	Effective Rate(1)	Conversion Rate(2)	Maturity Date	Remaining Period of Amortization
2017 Notes	\$ 431,250	3.75	% 5.87	% 41.7397	10/15/2017	1.5 years
2018 Notes	\$ 599,981	4.55	% 6.10	% 46.4599	3/1/2018	1.9 years
2019 Notes	\$ 341,363	4.00	% 5.35	% 49.2239	1/15/2019	2.8 years

	As of March 31, 2016	As of December 31, 2015
Total principal	\$ 1,372,594	\$ 1,372,594
Unamortized discount	(42,241)	(47,351)
Unamortized deferred financing costs	(1,281)	(1,448)
Carrying amount of debt components	\$ 1,329,072	\$ 1,323,795
Carrying amount of conversion option equity components recorded in additional paid-in capital	\$ 46,343	\$ 46,343

- (1) Effective rate includes the effects of underwriter purchase discount and the adjustment for the conversion option, the value of which reduced the initial liability and was recorded in additional paid-in-capital.
- (2) The conversion rate represents the number of shares of common stock issuable per \$1,000 principal amount of Convertible Notes converted, as adjusted in accordance with the indentures governing the Convertible Notes (including the applicable supplemental indentures) as a result of the spin-off of our former single family residential (“SFR”) segment to our stockholders in January 2014 and cash dividend payments.

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The if converted value of the 2017 Notes, 2018 Notes and 2019 Notes was less than their principal amounts by \$90.5 million, \$72.2 million and \$23.4 million at March 31, 2016, respectively, since the closing market price of the Company's common stock of \$18.93 per share was less than the implicit conversion prices of \$23.96, \$21.52 and \$20.32, respectively. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, conversion of this principal amount, totaling 62.7 million shares, was not included in the computation of diluted EPS. No dilution related to the Convertible Notes was included in the computation of diluted EPS for the three months ended March 31, 2016 as these notes were not "in-the-money". See further discussion in Note 17.

We did not repurchase any Convertible Notes during the three months ended March 31, 2016. During the three months ended March 31, 2015, we repurchased \$104.1 million aggregate principal amount of our 2019 Notes for \$119.8 million plus transaction expenses of \$0.1 million. The repurchase price was allocated between the fair value of the liability component and the fair value of the equity component of the convertible security. The portion of the repurchase price attributable to the equity component totaled \$15.7 million and was recognized as a reduction of additional paid-in capital during the three months ended March 31, 2015. The remaining repurchase price was attributable to the liability component. The difference between this amount and the net carrying amount of the liability and debt issuance costs was reflected as a loss on extinguishment of debt in our condensed consolidated statement of operations. For the three months ended March 31, 2015, the loss on extinguishment of debt totaled \$5.3 million, consisting principally of the write-off of unamortized debt discount.

Conditions for Conversion

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

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

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11. Loan Securitization/Sale Activities

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

Within the Investing and Servicing Segment, we originate commercial mortgage loans with the intent to sell these mortgage loans to VIEs for the purposes of securitization. These VIEs then issue CMBS that are collateralized in part by these assets, as well as other assets transferred to the VIE. In certain instances, we retain a subordinated interest in the VIE and serve as special servicer for the VIE. The following summarizes the fair value and par value of loans sold from our conduit platform, as well as the amount of sale proceeds used in part to repay the outstanding balance of the repurchase agreements associated with these loans for the three months ended March 31, 2016 and 2015 (amounts in thousands):

	For the Three Months Ended March 31,	
	2016	2015
Fair value of loans sold	\$ 256,964	\$ 482,009
Par value of loans sold	252,172	464,574
Repayment of repurchase agreements	189,207	344,378

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

	Loan Transfers Accounted for as Sales		Loan Transfers Accounted for as Secured Borrowings	
	Face Amount	Proceeds	Face Amount	Proceeds
For the Three Months Ended March 31,				

2016	\$ 98,537	\$ 97,882	\$ —	\$ —
2015	85,500	85,121	—	—

During the three months ended March 31, 2016 and 2015, gains recognized by the Lending Segment on sales of loans were not material.

12. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. Refer to Note 13 to the consolidated financial statements included in our Form 10-K for further discussion of our risk management objectives and policies.

Designated Hedges

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

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In connection with our repurchase agreements, we have entered into six outstanding interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of March 31, 2016, the aggregate notional amount of our interest rate swaps designated as cash flow hedges of interest rate risk totaled \$69.5 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.60% to 1.52% of the notional amount to the counterparty and receive floating rate LIBOR. Our interest rate swaps designated as cash flow hedges of interest rate risk have maturities ranging from August 2017 to May 2021.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2016 and 2015, we did not recognize any hedge ineffectiveness in earnings.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable-rate debt. Over the next 12 months, we estimate that an additional \$0.2 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 62 months.

Non-designated Hedges

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

We have entered into a series of forward contracts whereby we agreed to sell an amount of foreign currency for an agreed upon amount of USD at various dates through June 2020. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated loan investments and properties.

The following table summarizes our non-designated foreign exchange (“Fx”) forwards, interest rate swaps, interest rate caps and credit index instruments as of March 31, 2016 (notional amounts in thousands):

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Type of Derivative	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx contracts – Buy Danish Krone ("DKK")	1	69	DKK	December 2016
Fx contracts – Buy Euros ("EUR")	1	76	EUR	December 2016
Fx contracts – Buy Norwegian Krone ("NOK")	1	8	NOK	December 2016
Fx contracts – Buy Swedish Krona ("SEK")	1	844	SEK	December 2016
Fx contracts – Sell Danish Krone ("DKK")	1	6,251	DKK	December 2016
Fx contracts – Sell Euros ("EUR") (1)	82	343,717	EUR	May 2016 – June 2020
Fx contracts – Sell Pounds Sterling ("GBP")	61	239,773	GBP	April 2016 – March 2018
Fx contracts – Sell Norwegian Krone ("NOK")	1	878	NOK	December 2016
Fx contracts – Sell Swedish Krona ("SEK")	1	7,032	SEK	December 2016
Interest rate swaps – Paying fixed rates	37	281,472	USD	July 2016 – April 2026
Interest rate swaps – Receiving fixed rates	1	8,000	USD	July 2017
Interest rate caps	2	294,000	EUR	May 2020
Interest rate caps	4	34,543	USD	June 2018 – October 2020
Credit index instruments	9	36,000	USD	September 2058
Total	203			

(1) Includes 51 Fx contracts executed to hedge our Euro currency exposure created by our acquisition of the Ireland Portfolio. As of March 31, 2016, these contracts have an aggregate notional amount of €249.4 million and varying maturities through June 2020.

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The table below presents the fair value of our derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015 (amounts in thousands):

	Fair Value of Derivatives in an Asset Position (1)		Fair Value of Derivatives in a Liability Position (2)	
	As of		As of	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Derivatives designated as hedging instruments:				
Interest rate swaps	\$ 5	\$ 57	\$ 343	\$ 122
Total derivatives designated as hedging instruments	5	57	343	122
Derivatives not designated as hedging instruments:				
Interest rate swaps and caps	1,303	2,360	12,458	4,970
Foreign exchange contracts	33,000	41,137	3,401	104
Credit index instruments	2,630	1,537	—	—
Total derivatives not designated as hedging instruments	36,933	45,034	15,859	5,074
Total derivatives	\$ 36,938	\$ 45,091	\$ 16,202	\$ 5,196

(1) Classified as derivative assets in our condensed consolidated balance sheets.

(2) Classified as derivative liabilities in our condensed consolidated balance sheets.

The tables below present the effect of our derivative financial instruments on the condensed consolidated statements of operations and of comprehensive income for the three months ended March 31, 2016 and 2015 (amounts in thousands):

Derivatives Designated as Hedging Instruments For the Three Months Ended March 31,	Gain (Loss) Recognized	Gain (Loss) Reclassified from AOCI	Gain (Loss) Recognized	Location of Gain (Loss) Recognized in Income
	in OCI (effective portion)	into Income (effective portion)	in Income (ineffective portion)	
2016	\$ (368)	\$ (95)	\$ —	Interest expense
2015	\$ (467)	\$ (204)	\$ —	Interest expense

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income for the Three Months Ended March 31,	
		2016	2015
Interest rate swaps and caps	(Loss) gain on derivative financial instruments	\$ (18,000)	\$ (12,923)
Foreign exchange contracts	(Loss) gain on derivative financial instruments	(6,550)	37,972
Credit index instruments	(Loss) gain on derivative financial instruments	(168)	(426)
		\$ (24,718)	\$ 24,623

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13. Offsetting Assets and Liabilities

The following tables present the potential effects of netting arrangements on our financial position for financial assets and liabilities within the scope of ASC 210-20, Balance Sheet—Offsetting, which for us are derivative assets and liabilities as well as repurchase agreement liabilities (amounts in thousands):

	(i) Gross Amounts Recognized	(ii) Gross Amounts Offset in the Statement of Financial Position	(iii) = (i) - (ii) Net Amounts Presented in the Statement of Financial Position	(iv) Gross Amounts Not Offset in the Statement of Financial Position Cash Collateral Received / Pledged	(v) = (iii) - (iv) Net Amount
As of March 31, 2016					
Derivative assets	\$ 36,938	\$ —	\$ 36,938	\$ 3,817	\$ 33,121
Derivative liabilities	\$ 16,202	\$ —	\$ 16,202	\$ 3,817	\$ —
Repurchase agreements	3,030,775	—	3,030,775	3,030,775	—
	\$ 3,046,977	\$ —	\$ 3,046,977	\$ 3,034,592	\$ 12,385
As of December 31, 2015					
Derivative assets	\$ 45,091	\$ —	\$ 45,091	\$ 243	\$ 44,848
Derivative liabilities	\$ 5,196	\$ —	\$ 5,196	\$ 243	\$ 4,953
Repurchase agreements	2,655,264	—	2,655,264	2,655,264	—
	\$ 2,660,460	\$ —	\$ 2,660,460	\$ 2,655,507	\$ 4,953

14. Variable Interest Entities

Investment Securities

As discussed in Note 2, we evaluate all of our investments and other interests in entities for consolidation, including our investments in CMBS and our retained interests in securitization transactions we initiated, all of which are generally considered to be variable interests in VIEs.

The VIEs consolidated in accordance with ASC 810 are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The assets and other instruments held by these securitization entities are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the securitization entities do not have any recourse to the general credit of any other consolidated entities, nor to us as the primary beneficiary. The VIE liabilities initially represent investment securities on our balance sheet (pre-consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles as special servicer of the bonds issued by the consolidated VIEs or as collateral administrator of the consolidated VIEs are also eliminated. Finally, an allocable portion of the identified servicing intangible associated with the eliminated fee streams is eliminated in consolidation.

VIEs in which we are the Primary Beneficiary

As discussed in Note 2, our implementation of ASU 2015-02 resulted in the consolidation of certain CMBS trusts where the right to remove the Company as special servicer was not exercisable without cause. These 14 trusts had \$15.1 billion of VIE assets and \$15.1 billion of VIE liabilities as of March 31, 2016. The carrying value of our CMBS investments in these 14 trusts, totaling \$120.9 million, was eliminated in consolidation against VIE liabilities as of March 31, 2016.

The inclusion of the assets and liabilities of VIEs in which we are deemed the primary beneficiary has no economic effect on us. Our exposure to the obligations of VIEs is generally limited to our investment in these entities. We are not obligated to provide, nor have we provided, any financial support for any of these consolidated structures.

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VIEs in which we are not the Primary Beneficiary

In certain instances, we hold a variable interest in a VIE in the form of CMBS, but either (i) we are not appointed, or do not serve as, special servicer or (ii) an unrelated third party has the rights to unilaterally remove us as special servicer without cause. In these instances, we do not have the power to direct activities that most significantly impact the VIE's economic performance. In other cases, the variable interest we hold does not obligate us to absorb losses or provide us with the right to receive benefits from the VIE which could potentially be significant. For these structures, we are not deemed to be the primary beneficiary of the VIE, and we do not consolidate these VIEs.

As of March 31, 2016, one of our CDO structures was in default, which pursuant to the underlying indentures, changes the rights of the variable interest holders. Upon default of a CDO, the trustee or senior note holders are allowed to exercise certain rights, including liquidation of the collateral, which at that time, is the activity which would most significantly impact the CDO's economic performance. Further, when the CDO is in default, the collateral administrator no longer has the option to purchase securities from the CDO. In cases where the CDO is in default and we do not have the ability to exercise rights which would most significantly impact the CDO's economic performance, we do not consolidate the VIE. As of March 31, 2016, this CDO structure was not consolidated.

As noted above, we are not obligated to provide, nor have we provided, any financial support for any of our securitization VIEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our investment in the entity. As of March 31, 2016, our maximum risk of loss related to securitization VIEs in which we were not the primary beneficiary was \$96.7 million on a fair value basis.

As of March 31, 2016, the securitization VIEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances of \$24.3 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

As discussed in Note 2, our implementation of ASU 2015-02 resulted in the determination that certain unconsolidated entities in which we hold passive non-controlling interests are now considered VIEs. We are not the primary beneficiaries of these VIEs as we do not possess the power to direct the activities of the VIEs that most significantly impact their economic performance and therefore continue to report our interests, which totaled \$130.5 million as of March 31, 2016, within investment in unconsolidated entities on our condensed consolidated balance sheet. Our maximum risk of loss is limited to our carrying value of the investments plus \$29.2 million of remaining commitments related to one of these VIEs. These VIEs had assets of \$2.0 billion and liabilities of \$1.1 billion as of March 31, 2016.

15. Related-Party Transactions

Management Agreement

We are party to a management agreement (the “Management Agreement”) with our Manager. Under the Management Agreement, our Manager, subject to the oversight of our board of directors, is required to manage our day to day activities, for which our Manager receives a base management fee and is eligible for an incentive fee and stock awards. Our Manager’s personnel perform certain due diligence, legal, management and other services that outside professionals or consultants would otherwise perform. As such, in accordance with the terms of our Management Agreement, our Manager is paid or reimbursed for the documented costs of performing such tasks, provided that such costs and reimbursements are in amounts no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm’s-length basis. Refer to Note 16 to the consolidated financial statements included in our Form 10-K for further discussion of this agreement.

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Base Management Fee. For the three months ended March 31, 2016 and 2015, approximately \$15.1 million and \$13.9 million, respectively, was incurred for base management fees. As of March 31, 2016 and December 31, 2015, there were \$15.1 million and \$15.2 million, respectively, of unpaid base management fees included in the related-party payable in our condensed consolidated balance sheets.

Incentive Fee. For the three months ended March 31, 2016 and 2015, approximately \$4.6 million and \$6.7 million, respectively, was incurred for incentive fees. As of March 31, 2016 and December 31, 2015, approximately \$4.6 million and \$21.8 million, respectively, of unpaid incentive fees were included in related-party payable in our condensed consolidated balance sheets.

Expense Reimbursement. For the three months ended March 31, 2016 and 2015, approximately \$1.1 million and \$1.3 million, respectively, was incurred for executive compensation and other reimbursable expenses and recognized within general and administrative expenses in our condensed consolidated statements of operations. As of March 31, 2016 and December 31, 2015, approximately \$3.9 million and \$3.6 million, respectively, of unpaid reimbursable executive compensation and other expenses were included in related-party payable in our condensed consolidated balance sheets.

Equity Awards. In certain instances, we issue RSAs to certain employees of affiliates of our Manager who perform services for us. During the three months ended March 31, 2016 and 2015, we granted 162,546 and 23,677 RSAs, respectively, at grant date fair values of \$3.1 million and \$0.6 million, respectively. These shares generally vest over a three-year period. Expenses related to the vesting of awards to employees of affiliates of our Manager were \$0.4 million and immaterial during the three months ended March 31, 2016 and 2015, respectively, and are reflected in general and administrative expenses in our condensed consolidated statements of operations

Manager Equity Plan

In May 2015, we granted 675,000 RSUs to our Manager under the Starwood Property Trust, Inc. Manager Equity Plan (“Manager Equity Plan”). In connection with this grant and prior similar grants, we recognized share-based compensation expense of \$4.8 million and \$7.0 million within management fees in our condensed consolidated statements of operations for the three months ended March 31, 2016 and 2015, respectively. Refer to Note 16 for further discussion of these grants.

Investments in Loans and Securities

In December 2013, we acquired a subordinate CMBS investment in a securitization issued by an affiliate of our Manager. The security was acquired for \$84.1 million and is secured by five regional malls in Ohio, California and Washington. In January 2016, we acquired an additional \$9.7 million of this subordinate CMBS investment.

Acquisitions from Consolidated CMBS Trusts

Our Investing and Servicing Segment acquires controlling interests in properties for its REO Portfolio from CMBS trusts, some of which are consolidated as VIEs on our balance sheet. Acquisitions from consolidated VIEs are reflected as repayment of debt of consolidated VIEs in our condensed consolidated statements of cash flows. During the three months ended March 31, 2016, we acquired \$24.7 million of net real estate assets from consolidated CMBS trusts. Refer to Note 3 for further discussion of these acquisitions.

Our Investing and Servicing Segment also acquires controlling interests in performing and non-performing commercial mortgage loans from CMBS trusts, some of which are consolidated as VIEs on our balance sheet. Acquisitions from consolidated VIEs are reflected as repayment of debt of consolidated VIEs in our condensed consolidated statements of cash flows. During the three months ended March 31, 2016, we acquired \$9.7 million and \$8.2 million of performing and non-performing loans, respectively, from consolidated CMBS trusts.

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Other Related-Party Arrangements

During the three months ended March 31, 2016, we established a co-investment fund which provides key personnel with the opportunity to invest in certain properties included in our REO Portfolio. These personnel include certain of our employees as well as employees of affiliates of our Manager (collectively “Fund Participants”). The fund carries an aggregate commitment of \$15.0 million and owns a 10% equity interest in REO Portfolio properties acquired subsequent to January 1, 2015. Of this commitment, Fund Participants have contributed \$3.5 million through March 31, 2016, with a maximum expected capital contribution amount of \$4.9 million. The capital contributed by Fund Participants to date is reflected on our condensed consolidated balance sheet as non-controlling interests in consolidated subsidiaries. In an effort to retain key personnel, the fund provides for disproportionate distributions which allows Fund Participants to earn an incremental 60% on all operating cash flows attributable to their capital account, net of a preferred return to us as general partner of the fund. Amounts earned by Fund Participants pursuant to this waterfall are reflected within net income attributable to non-controlling interests in our condensed consolidated statement of operations. During the three months ended March 31, 2016, the non-controlling interests related to this fund recognized an immaterial loss.

Refer to Note 16 to the consolidated financial statements included in our Form 10-K for further discussion of related-party agreements.

16. Stockholders’ Equity

During the three months ended March 31, 2016, our board of directors declared the following dividends:

Declare Date	Record Date	Ex-Dividend Date	Payment		
			Date	Amount	Frequency
2/25/16	3/31/16	3/29/16	4/15/16	\$ 0.48	Quarterly

During the three months ended March 31, 2016, there were no shares issued under our At-The-Market Equity Offering Sales Agreement (the “ATM Agreement”). During the three months ended March 31, 2016, shares issued under the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the “DRIP Plan”) were not material.

During the three months ended March 31, 2016, we repurchased 1,052,889 shares of common stock for \$19.7 million under our \$500.0 million repurchase program. Refer to Note 17 to the consolidated financial statements included in our Form 10-K for further information regarding the repurchase program. As of March 31, 2016, we have \$282.1 million of remaining capacity to repurchase common stock or Convertible Notes under the repurchase program through January 2017.

Equity Incentive Plans

The Company currently maintains the Manager Equity Plan, the Starwood Property Trust, Inc. Equity Plan (the “Equity Plan”), and the Starwood Property Trust, Inc. Non-Executive Director Stock Plan (“Non-Executive Director Stock Plan”). Refer to Note 17 to the consolidated financial statements included in our Form 10-K for further information regarding these plans.

The table below summarizes our share awards granted or vested under the Manager Equity Plan during the three months ended March 31, 2016 and 2015 (dollar amounts in thousands):

Grant Date	Type	Amount Granted	Grant Date Fair Value	Vesting Period
May 2015	RSU	675,000	\$ 16,511	3 years
January 2014	RSU	489,281	14,776	3 years
January 2014	RSU	2,000,000	55,420	3 years

As of March 31, 2016, there were 2.3 million shares available for future grants under the Manager Equity Plan, the Equity Plan and the Non-Executive Director Stock Plan.

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Schedule of Non-Vested Shares and Share Equivalents

	Non-Executive			Total	Weighted Average Grant Date Fair Value (per share)
	Director Stock Plan	Equity Plan	Manager Equity Plan		
Balance as of January 1, 2016	16,988	548,378	1,302,850	1,868,216	\$ 25.84
Granted	3,776	339,806	—	343,582	18.72
Vested	—	(247,780)	(255,400)	(503,180)	25.55
Forfeited	—	(15,684)	—	(15,684)	24.17
Balance as of March 31, 2016	20,764	624,720	1,047,450	1,692,934	24.49

17. Earnings per Share

The following table provides a reconciliation of net income and the number of shares of common stock used in the computation of basic EPS and diluted EPS (amounts in thousands, except per share amounts):

	For the Three Months Ended March 31,	
	2016	2015
Basic Earnings		
Income attributable to STWD common stockholders	\$ 26,657	\$ 120,363
Less: Income attributable to participating shares	(708)	(972)
Basic earnings	\$ 25,949	\$ 119,391
Diluted Earnings		
Basic — Income attributable to STWD common stockholders	\$ 26,657	\$ 120,363
Less: Income attributable to participating shares	(708)	(972)
Add: Undistributed earnings to participating shares	—	106
Less: Undistributed earnings reallocated to participating shares	—	(104)

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Diluted earnings	\$ 25,949	\$ 119,393
Number of Shares:		
Basic — Average shares outstanding	236,556	223,541
Effect of dilutive securities — Convertible Notes	—	5,353
Effect of dilutive securities — Contingently issuable shares	121	138
Effect of dilutive securities — Unvested non-participating shares	82	—
Diluted — Average shares outstanding	236,759	229,032
Earnings Per Share Attributable to STWD Common Stockholders:		
Basic	\$ 0.11	\$ 0.53
Diluted	\$ 0.11	\$ 0.52

As of March 31, 2016 and 2015, participating shares of 1.5 million and 1.8 million, respectively, were excluded from the computation of diluted shares as their effect was already considered under the more dilutive two-class method used above.

Also as of March 31, 2016, there were 62.7 million potential shares of common stock contingently issuable upon the conversion of the Convertible Notes. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, this principal amount, representing 62.7 million shares at March 31, 2016, was not included in the computation of diluted EPS. As discussed in Note 10, the conversion options associated with the Convertible Notes are “out-of-the-money” because the if-converted value of the 2017, 2018 and 2019 Convertible Notes was less than their principal amount by \$90.5 million, \$72.2 million and \$23.4 million, respectively, at March 31, 2016. Therefore, there was no dilutive effect to EPS for the Convertible Notes.

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18. Accumulated Other Comprehensive Income

The changes in AOCI by component are as follows (amounts in thousands):

	Effective Portion of Cumulative Loss on Cash Flow Hedges	Cumulative Unrealized Gain (Loss) on Available-for- Sale Securities	Foreign Currency Translation	Total
Three Months Ended March 31, 2016				
Balance at January 1, 2016	\$ (65)	\$ 37,307	\$ (7,513)	\$ 29,729
OCI before reclassifications	(368)	(3,400)	7,401	3,633
Amounts reclassified from AOCI	95	—	—	95
Net period OCI	(273)	(3,400)	7,401	3,728
Balance at March 31, 2016	\$ (338)	\$ 33,907	\$ (112)	\$ 33,457
Three Months Ended March 31, 2015				
Balance at January 1, 2015	\$ (97)	\$ 60,190	\$ (4,197)	\$ 55,896
OCI before reclassifications	(467)	(2,567)	(8,308)	(11,342)
Amounts reclassified from AOCI	204	(5,396)	—	(5,192)
Net period OCI	(263)	(7,963)	(8,308)	(16,534)
Balance at March 31, 2015	\$ (360)	\$ 52,227	\$ (12,505)	\$ 39,362

The reclassifications out of AOCI impacted the condensed consolidated statements of operations for the three months ended March 31, 2016 and 2015 as follows (amounts in thousands):

	Amounts Reclassified from AOCI during the Three Months Ended March 31,		Affected Line Item in the Statements of Operations
	2016	2015	
Details about AOCI Components			

Losses on cash flow hedges:			
Interest rate contracts	\$ (95)	\$ (204)	Interest expense
Unrealized gains (losses) on available-for-sale securities:			
Interest realized upon collection	—	5,396	Interest income from investment securities
Total reclassifications for the period	\$ (95)	\$ 5,192	

19. Fair Value

GAAP establishes a hierarchy of valuation techniques based on the observability of inputs utilized in measuring financial assets and liabilities at fair value. GAAP establishes market-based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy are described below:

Level I—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II—Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

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Valuation Process

We have valuation control processes in place to validate the fair value of the Company's financial assets and liabilities measured at fair value including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. Refer to Note 20 to the consolidated financial statements included in our Form 10-K for further discussion of our valuation process.

We determine the fair value of our assets and liabilities measured at fair value on a recurring and nonrecurring basis in accordance with the methodology described in our Form 10-K.

Fair Value Disclosures

The following tables present our financial assets and liabilities carried at fair value on a recurring basis in the condensed consolidated balance sheets by their level in the fair value hierarchy as of March 31, 2016 and December 31, 2015 (amounts in thousands):

	March 31, 2016			
	Total	Level I	Level II	Level III
Financial Assets:				
Loans held-for-sale, fair value option	\$ 154,225	\$ —	\$ —	\$ 154,225
RMBS	210,898	—	—	210,898
CMBS	96,724	—	—	96,724
Equity security	13,911	13,911	—	—
Domestic servicing rights	95,492	—	—	95,492
Derivative assets	36,938	—	36,938	—
VIE assets	85,115,662	—	—	85,115,662
Total	\$ 85,723,850	\$ 13,911	\$ 36,938	\$ 85,673,001
Financial Liabilities:				
Derivative liabilities	\$ 16,202	\$ —	\$ 16,202	\$ —
VIE liabilities	84,151,022	—	81,112,488	3,038,534
Total	\$ 84,167,224	\$ —	\$ 81,128,690	\$ 3,038,534

	December 31, 2015			
	Total	Level I	Level II	Level III

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Financial Assets:				
Loans held-for-sale, fair value option	\$ 203,865	\$ —	\$ —	\$ 203,865
RMBS	176,224	—	—	176,224
CMBS	212,981	—	—	212,981
Equity security	14,498	14,498	—	—
Domestic servicing rights	119,698	—	—	119,698
Derivative assets	45,091	—	45,091	—
VIE assets	76,675,689	—	—	76,675,689
Total	\$ 77,448,046	\$ 14,498	\$ 45,091	\$ 77,388,457
Financial Liabilities:				
Derivative liabilities	\$ 5,196	\$ —	\$ 5,196	\$ —
VIE liabilities	75,817,014	—	73,264,566	2,552,448
Total	\$ 75,822,210	\$ —	\$ 73,269,762	\$ 2,552,448

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The changes in financial assets and liabilities classified as Level III are as follows for the three months ended March 31, 2016 and 2015 (amounts in thousands):

Three Months Ended March 31, 2016	Loans		Domestic Servicing		VIE		Total
	Held for sale	RMBS	CMBS	Rights	VIE Assets	Liabilities	
January 1, 2016 balance	\$ 203,865	\$ 176,224	\$ 212,981	\$ 119,698	\$ 76,675,689	\$ (2,552,448)	\$ 74,836,009
Impact of ASU 2015-02 Adoption (1)	—	—	—	(17,467)	17,467	—	—
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	6,891	—	967	(6,739)	(4,089,501)	236,123	(3,852,259)
Net accretion	—	3,415	—	—	—	—	3,415
Included in OCI	—	(3,400)	—	—	—	—	(3,400)
Purchases / Originations	200,570	41,470	33,173	—	—	—	275,213
Sales	(256,964)	—	—	—	—	—	(256,964)
Issuances	—	—	—	—	—	(596)	(596)
Cash repayments / receipts	(137)	(6,811)	(12,303)	—	—	5,850	(13,401)
Transfers into Level III	—	—	—	—	—	(415,044)	(415,044)
Transfers out of Level III	—	—	—	—	—	110,965	110,965
Consolidation of VIEs	—	—	(138,342)	—	15,103,275	(430,653)	14,534,280
Deconsolidation of VIEs	—	—	248	—	(2,591,268)	7,269	(2,583,751)
March 31, 2016 balance	\$ 154,225	\$ 210,898	\$ 96,724	\$ 95,492	\$ 85,115,662	\$ (3,038,534)	\$ 82,634,467
Amount of total gains (losses) included in earnings	\$ 2,162	\$ 3,415	\$ 1,499	\$ (6,739)	\$ (4,089,501)	\$ 236,123	\$ (3,853,041)

attributable to
assets still held
at March 31,
2016

- (1) As discussed in Notes 2 and 14, our implementation of ASU 2015-02 resulted in the consolidation of certain CMBS trusts effective January 1, 2016, which required the elimination of \$17.5 million of domestic servicing rights associated with these newly consolidated trusts.

Three Months Ended March 31, 2015	Loans		Domestic Servicing		VIE		Total
	Held for sale	RMBS	CMBS	Rights	VIE Assets	Liabilities	
January 1, 2015 balance	\$ 391,620	\$ 207,053	\$ 334,080	\$ 132,303	\$ 107,816,065	\$ (4,893,120)	\$ 103,988,001
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	21,131	—	(160)	(1,542)	(8,847,854)	2,460,672	(6,367,753)
Net accretion	—	9,445	—	—	—	—	9,445
Included in OCI	—	(7,626)	(5,216)	—	—	—	(12,842)
Purchases / Originations	413,221	—	8,738	—	—	—	421,959
Sales	(482,009)	—	(4,713)	—	—	—	(486,722)
Issuances	—	—	—	—	—	(6,763)	(6,763)
Cash repayments / receipts	(193)	(11,487)	(225)	—	—	47,936	36,031
Transfers into Level III	—	—	—	—	—	(192,481)	(192,481)
Transfers out of Level III	—	—	—	—	—	549,370	549,370
Consolidation of VIEs	—	—	(24,309)	—	4,413,608	(111,072)	4,278,227
Deconsolidation of VIEs	—	—	—	—	(17,841)	—	(17,841)
March 31, 2015 balance	\$ 343,770	\$ 197,385	\$ 308,195	\$ 130,761	\$ 103,363,978	\$ (2,145,458)	\$ 102,198,631
Amount of total gains (losses) included in earnings	\$ 4,788	\$ 3,952	\$ (1,101)	\$ (1,542)	\$ (8,847,854)	\$ 2,460,672	\$ (6,381,085)

attributable to
assets still held
at March 31,
2015

Amounts were transferred from Level II to Level III due to a decrease in the observable relevant market activity and amounts were transferred from Level III to Level II due to an increase in the observable relevant market activity.

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The following table presents the fair values, all of which are classified in Level III of the fair value hierarchy, of our financial instruments not carried at fair value on the condensed consolidated balance sheets (amounts in thousands):

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets not carried at fair value:				
Loans held-for-investment and loans transferred as secured borrowings	\$ 6,276,166	\$ 6,339,187	\$ 6,059,652	\$ 6,125,881
HTM securities	327,831	315,171	321,244	315,255
European servicing rights	2,122	4,895	2,626	5,302
Financial liabilities not carried at fair value:				
Secured financing agreements and secured borrowings on transferred loans	\$ 4,570,865	\$ 4,568,435	\$ 4,068,699	\$ 4,092,264
Convertible senior notes	1,329,072	1,292,296	1,323,795	1,331,979

The following is quantitative information about significant unobservable inputs in our Level III measurements for those assets and liabilities measured at fair value on a recurring basis (dollar amounts in thousands):

	Carrying Value at March 31, 2016	Valuation Technique	Unobservable Input	Range as of (1)	
				March 31, 2016	December 31, 2015
Loans held-for-sale, fair value option	\$ 154,225	Discounted cash flow	Yield (b)	4.7% - 5.7%	4.8% - 5.3%
			Duration (c)	5.0 - 10.0	5.0 - 10.0
RMBS	210,898	Discounted cash flow	Constant prepayment rate (a)	2.7% - 15.6%	2.6% - 17.8%
			Constant default rate (b)	1.0% - 8.7%	1.0% - 8.9%
			Loss severity (b)	7% - 80%	10% - 79%
			Delinquency rate (c)	2% - 29%	2% - 29%
			Servicer advances (a)	29% - 93%	30% - 94%
			Annual coupon deterioration (b)	0% - 0.4%	0% - 0.5%
					0% - 11%

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			Putback amount per projected total collateral loss (d)	0% - 11%	
CMBS	96,724	Discounted cash flow	Yield (b)	0% - 278.0%	0% - 435.8%
			Duration (c)	0 - 9.8 years	0 - 18.5 years
Domestic servicing rights	95,492	Discounted cash flow	Debt yield (a)	8.25%	8.25%
			Discount rate (b)	15%	15%
			Control migration (b)	0% - 80%	0% - 80%
VIE assets	85,115,662	Discounted cash flow	Yield (b)	0% - 880.5%	0% - 920.2%
			Duration (c)	0 - 15.1 years	0 - 17.5 years
VIE liabilities	3,038,534	Discounted cash flow	Yield (b)	0% - 880.5%	0% - 920.2%
			Duration (c)	0 - 15.1 years	0 - 17.5 years

(1) The ranges of significant unobservable inputs are represented in percentages and years.

Sensitivity of the Fair Value to Changes in the Unobservable Inputs

- (a) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.
- (b) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.
- (c) Significant increase (decrease) in the unobservable input in isolation would result in either a significantly lower or higher (lower or higher) fair value measurement depending on the structural features of the security in question.
- (d) Any delay in the putback recovery date leads to a decrease in fair value, for the majority of securities in our RMBS portfolio.
- (e) 71% and 76% of the portfolio falls within a range of 45%-80% as of March 31, 2016 and December 31, 2015, respectively.

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20. Income Taxes

Certain of our subsidiaries have elected to be treated as taxable REIT subsidiaries (“TRSs”). TRSs permit us to participate in certain activities from which REITs are generally precluded, as long as these activities meet specific criteria, are conducted within the parameters of certain limitations established by the Code, and are conducted in entities which elect to be treated as taxable subsidiaries under the Code. To the extent these criteria are met, we will continue to maintain our qualification as a REIT.

Our TRSs engage in various real estate related operations, including special servicing of commercial real estate, originating and securitizing commercial mortgage loans, and investing in entities which engage in real estate related operations. The majority of our TRSs are held within the Investing and Servicing Segment. As of March 31, 2016 and December 31, 2015, approximately \$629.9 million and \$858.5 million, respectively, of the Investing and Servicing Segment’s assets, including \$61.7 million and \$185.6 million in cash, respectively, were owned by TRS entities. Our TRSs are not consolidated for U.S. federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred taxes is established for the portion of earnings recognized by us with respect to our interest in TRSs.

The following table is a reconciliation of our U.S. federal income tax determined using our statutory federal tax rate to our reported income tax provision for the three months ended March 31, 2016 and 2015 (dollar amounts in thousands):

	For the Three Months Ended March 31,					
	2016			2015		
Federal statutory tax rate	\$ 9,499	35.0	%	\$ 47,856	35.0	%
REIT and other non-taxable income	(8,964)	(33.0)	%	(34,972)	(25.6)	%
State income taxes	(95)	(0.4)	%	2,001	1.5	%
Federal benefit of state tax deduction	33	0.1	%	(700)	(0.5)	%
Valuation allowance	—	—	%	1,255	0.9	%
Other	(379)	(1.4)	%	511	0.4	%
Effective tax rate	\$ 94	0.3	%	\$ 15,951	11.7	%

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21. Commitments and Contingencies

As of March 31, 2016, we had future funding commitments on 50 loans totaling \$1.4 billion, of which we expect to fund \$1.2 billion. These future funding commitments primarily relate to construction projects, capital improvements, tenant improvements and leasing commissions. Generally, funding commitments are subject to certain conditions that must be met, such as customary construction draw certifications, minimum debt service coverage ratios or executions of new leases before advances are made to the borrower.

In the ordinary course of business, we provide various forms of guarantees. In limited instances, specifically involving construction loans, the Company has guaranteed the future funding obligations of certain third party lenders in the event that such third parties fail to fund their proportionate share of the obligation in a timely manner. We are currently unaware of any circumstances which would require us to make payments under any of these guarantees.

Management is not aware of any other contractual obligations, legal proceedings, or any other contingent obligations incurred in the normal course of business that would have a material adverse effect on our condensed consolidated financial statements.

22. Segment Data

In its operation of the business, management, including our chief operating decision maker, who is our Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis prior to the impact of consolidating VIEs under ASC 810. The segment information within this note is reported on that basis.

Effective April 1, 2015, upon our Ireland Portfolio acquisition discussed in Note 3, we established a third business segment, the Property Segment, and transferred our existing equity method investment in four regional shopping malls (the "Retail Fund") from our Lending Segment to our Property Segment. We have retrospectively reclassified prior periods to conform to these changes in presentation.

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The table below presents our results of operations for the three months ended March 31, 2016 by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Subtotal	Investing and Servicing VIEs	Total
Revenues:							
Interest income from loans	\$ 114,658	\$ 2,874	\$ —	\$ —	\$ 117,532	\$ —	\$ 117,532
Interest income from investment securities	9,628	47,626	—	—	57,254	(37,851)	19,403
Servicing fees	159	36,218	—	—	36,377	(11,686)	24,691
Rental income	—	6,475	26,202	—	32,677	—	32,677
Other revenues	23	1,342	6	—	1,371	(181)	1,190
Total revenues	124,468	94,535	26,208	—	245,211	(49,718)	195,493
Costs and expenses:							
Management fees	375	18	—	24,528	24,921	42	24,963
Interest expense	22,335	3,238	4,949	25,998	56,520	—	56,520
General and administrative	3,922	25,294	555	2,850	32,621	177	32,798
Acquisition and investment pursuit costs	338	355	592	—	1,285	—	1,285
Costs of rental operations	—	3,062	9,593	—	12,655	—	12,655
Depreciation and amortization	—	3,051	15,709	—	18,760	—	18,760
Loan loss allowance, net	(761)	—	—	—	(761)	—	(761)
Other expense	—	100	—	—	100	—	100
Total costs and expenses	26,209	35,118	31,398	53,376	146,101	219	146,320
Income (loss) before other income (loss), income taxes and non-controlling interests	98,259	59,417	(5,190)	(53,376)	99,110	(49,937)	49,173
Other income (loss):							

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Change in net assets related to consolidated VIEs	—	—	—	—	—	(4,167)	(4,167)
Change in fair value of servicing rights	—	(8,670)	—	—	(8,670)	1,931	(6,739)
Change in fair value of investment securities, net	(214)	(51,528)	—	—	(51,742)	52,495	753
Change in fair value of mortgage loans held-for-sale, net	—	6,891	—	—	6,891	—	6,891
Earnings from unconsolidated entities	468	1,377	2,429	—	4,274	(209)	4,065
Gain on sale of investments and other assets, net	245	—	—	—	245	—	245
Loss on derivative financial instruments, net	(3,026)	(11,245)	(10,447)	—	(24,718)	—	(24,718)
Foreign currency (loss) gain, net	(1,822)	1,460	(16)	—	(378)	—	(378)
Other income, net	—	43	422	1,550	2,015	—	2,015
Total other income (loss)	(4,349)	(61,672)	(7,612)	1,550	(72,083)	50,050	(22,033)
Income (loss) before income taxes	93,910	(2,255)	(12,802)	(51,826)	27,027	113	27,140
Income tax provision	(75)	(19)	—	—	(94)	—	(94)
Net income (loss)	93,835	(2,274)	(12,802)	(51,826)	26,933	113	27,046
Net (income) loss attributable to non-controlling interests	(350)	74	—	—	(276)	(113)	(389)
Net income (loss) attributable to Starwood Property Trust, Inc.	\$ 93,485	\$ (2,200)	\$ (12,802)	\$ (51,826)	\$ 26,657	\$ —	\$ 26,657

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The table below presents our results of operations for the three months ended March 31, 2015 by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Subtotal	Investing and Servicing VIEs	Total
Revenues:							
Interest income from loans	\$ 113,472	\$ 4,957	\$ —	\$ —	\$ 118,429	\$ —	\$ 118,429
Interest income from investment securities	22,296	24,696	—	—	46,992	(19,248)	27,744
Servicing fees	84	50,948	—	—	51,032	(22,775)	28,257
Rental income	—	2,672	—	—	2,672	—	2,672
Other revenues	79	1,930	—	—	2,009	(262)	1,747
Total revenues	135,931	85,203	—	—	221,134	(42,285)	178,849
Costs and expenses:							
Management fees	388	18	—	27,512	27,918	50	27,968
Interest expense	21,523	2,119	—	26,892	50,534	—	50,534
General and administrative	4,858	29,189	2	1,029	35,078	186	35,264
Acquisition and investment pursuit costs	773	213	—	200	1,186	—	1,186
Costs of rental operations	—	1,698	—	—	1,698	—	1,698
Depreciation and amortization	—	4,085	—	—	4,085	—	4,085
Loan loss allowance, net	317	—	—	—	317	—	317
Other expense	—	375	—	—	375	—	375
Total costs and expenses	27,859	37,697	2	55,633	121,191	236	121,427
Income (loss) before other income (loss), income taxes and non-controlling interests	108,072	47,506	(2)	(55,633)	99,943	(42,521)	57,422
Other income (loss):							

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Change in net assets related to consolidated VIEs	—	—	—	—	—	47,861	47,861
Change in fair value of servicing rights	—	(4,875)	—	—	(4,875)	3,333	(1,542)
Change in fair value of investment securities, net	(339)	8,313	—	—	7,974	(8,473)	(499)
Change in fair value of mortgage loans held-for-sale, net	—	21,131	—	—	21,131	—	21,131
Earnings from unconsolidated entities	855	2,724	2,641	—	6,220	(130)	6,090
Gain on sale of investments and other assets, net	98	17,100	—	—	17,198	—	17,198
Gain (loss) on derivative financial instruments, net	32,863	(8,007)	(233)	—	24,623	—	24,623
Foreign currency (loss) gain, net	(29,336)	(1,171)	200	—	(30,307)	—	(30,307)
Loss on extinguishment of debt	—	—	—	(5,292)	(5,292)	—	(5,292)
Other income, net	—	31	—	14	45	—	45
Total other income (loss)	4,141	35,246	2,608	(5,278)	36,717	42,591	79,308
Income (loss) before income taxes	112,213	82,752	2,606	(60,911)	136,660	70	136,730
Income tax benefit (provision)	30	(15,981)	—	—	(15,951)	—	(15,951)
Net income (loss)	112,243	66,771	2,606	(60,911)	120,709	70	120,779
Net income attributable to non-controlling interests	(346)	—	—	—	(346)	(70)	(416)
Net income (loss) attributable to	\$ 111,897	\$ 66,771	\$ 2,606	\$ (60,911)	\$ 120,363	\$ —	\$ 120,363

Starwood
Property
Trust, Inc.

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The table below presents our condensed consolidated balance sheet as of March 31, 2016 by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Subtotal	Investing and Servicing VIEs	Total
Assets:							
Cash and cash equivalents	\$ 103,942	\$ 70,684	\$ 15,486	\$ 144,062	\$ 334,174	\$ 1,045	\$ 335,219
Restricted cash	31,474	11,710	5,191	—	48,375	—	48,375
Receivables	6,169,937	17,717	—	—	6,187,654	—	6,187,654
Loans held-for-sale	—	154,225	—	—	154,225	—	154,225
Loans transferred as held-for-sale	88,512	—	—	—	88,512	—	88,512
Investment securities	552,640	1,012,618	—	—	1,565,258	(915,894)	649,364
Real estate properties, net	—	172,289	982,686	—	1,154,975	—	1,154,975
Intangible assets	—	147,495	60,346	—	207,841	(27,365)	180,476
Investment in consolidated entities	30,311	52,463	121,297	—	204,071	(7,434)	196,637
Goodwill	—	140,437	—	—	140,437	—	140,437
Other assets	33,237	2,911	790	—	36,938	—	36,938
Deferred interest receivable	35,451	469	—	—	35,920	52	35,972
Other assets	14,640	70,562	27,132	1,737	114,071	(2,211)	111,860
Other assets, at fair value	—	—	—	—	—	85,115,662	85,115,662
Total Assets	\$ 7,060,144	\$ 1,853,580	\$ 1,212,928	\$ 145,799	\$ 10,272,451	\$ 84,163,855	\$ 94,436,007
Liabilities and Equity							
Liabilities:							
Accounts payable, accrued expenses	\$ 28,501	\$ 51,774	\$ 42,329	\$ 15,962	\$ 138,566	\$ 720	\$ 139,286
Third-party payable	—	689	—	23,468	24,157	—	24,157
Accrued interest payable	—	—	—	114,839	114,839	—	114,839
Other liabilities	12,551	2,106	1,545	—	16,202	—	16,202
Secured financing arrangements, net	2,723,567	397,884	712,782	646,727	4,480,960	—	4,480,960
Convertible senior notes, net	—	—	—	1,329,072	1,329,072	—	1,329,072
Secured borrowings on transferred loans	89,905	—	—	—	89,905	—	89,905
Other liabilities, at fair value	—	—	—	—	—	84,151,022	84,151,022
Total Liabilities	2,854,524	452,453	756,656	2,130,068	6,193,701	84,151,742	90,345,180
Equity:							

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Starwood Property Trust, Inc.							
Stockholders' Equity:							
Common stock	—	—	—	2,422	2,422	—	2,422
Additional paid-in capital	2,276,386	1,173,852	456,658	304,008	4,210,904	—	4,210,904
Treasury stock	—	—	—	(92,104)	(92,104)	—	(92,104)
Accumulated other comprehensive income							
(Net)	33,569	(4,395)	4,283	—	33,457	—	33,457
Retained earnings							
(Accumulated deficit)	1,884,190	218,873	(4,669)	(2,198,595)	(100,201)	—	(100,201)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,194,145	1,388,330	456,272	(1,984,269)	4,054,478	—	4,054,478
Non-controlling interests							
Consolidated subsidiaries	11,475	12,797	—	—	24,272	12,113	36,385
Total Equity	4,205,620	1,401,127	456,272	(1,984,269)	4,078,750	12,113	4,090,863
Total Liabilities and Equity	\$ 7,060,144	\$ 1,853,580	\$ 1,212,928	\$ 145,799	\$ 10,272,451	\$ 84,163,855	\$ 94,436,855

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The table below presents our condensed consolidated balance sheet as of December 31, 2015 by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Subtotal	Investing and Servicing VIEs	Total
Assets:							
Cash and cash equivalents	\$ 83,836	\$ 62,649	\$ 2,944	\$ 218,408	\$ 367,837	\$ 978	\$ 368,815
Restricted cash	9,775	8,826	4,468	—	23,069	—	23,069
Loans							
Loans held-for-investment, net	5,973,079	—	—	—	5,973,079	—	5,973,079
Loans held-for-sale	—	203,865	—	—	203,865	—	203,865
Loans transferred as							
Secured borrowings	86,573	—	—	—	86,573	—	86,573
Investment securities	511,966	1,038,200	—	—	1,550,166	(825,219)	724,947
Properties, net	—	150,497	768,728	—	919,225	—	919,225
Intangible assets	—	152,278	61,121	—	213,399	(11,829)	201,570
Investment in							
consolidated entities	30,827	53,145	122,454	—	206,426	(7,225)	199,201
Goodwill	—	140,437	—	—	140,437	—	140,437
Derivative assets	33,412	2,087	9,592	—	45,091	—	45,091
Accrued							
Interest receivable	34,028	286	—	—	34,314	—	34,314
Other assets	7,938	71,505	23,657	1,436	104,536	(2,057)	102,479
Real estate assets, at fair value	—	—	—	—	—	76,675,689	76,675,689
Total Assets	\$ 6,771,434	\$ 1,883,775	\$ 992,964	\$ 219,844	\$ 9,868,017	\$ 75,830,337	\$ 85,698,337
Liabilities and Equity							
Liabilities:							
Accounts payable, accrued expenses							
and other liabilities	\$ 18,822	\$ 90,399	\$ 25,427	\$ 21,468	\$ 156,116	\$ 689	\$ 156,805
Related-party payable	—	423	—	40,532	40,955	—	40,955
Dividends payable	—	—	—	114,947	114,947	—	114,947
Derivative liabilities	5,190	6	—	—	5,196	—	5,196
Secured financing							
commitments, net	2,341,897	422,260	568,738	647,804	3,980,699	—	3,980,699
Convertible senior notes,							
and other	—	—	—	1,323,795	1,323,795	—	1,323,795
Secured borrowings on							
transferred loans	88,000	—	—	—	88,000	—	88,000
	—	—	—	—	—	75,817,014	75,817,014

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Liabilities, at fair value							
Total Liabilities	2,453,909	513,088	594,165	2,148,546	5,709,708	75,817,703	81,527,400
Equity:							
Starwood Property Trust, Inc.							
Stockholders' Equity:							
Common stock	—	—	—	2,410	2,410	—	2,410
Additional paid-in capital	2,477,987	1,146,926	394,465	173,466	4,192,844	—	4,192,844
Treasury stock	—	—	—	(72,381)	(72,381)	—	(72,381)
Accumulated other comprehensive income (loss)	37,242	(3,714)	(3,799)	—	29,729	—	29,729
Retained earnings (accumulated deficit)	1,790,705	221,073	8,133	(2,032,197)	(12,286)	—	(12,286)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,305,934	1,364,285	398,799	(1,928,702)	4,140,316	—	4,140,316
Non-controlling interests							
Consolidated subsidiaries	11,591	6,402	—	—	17,993	12,634	30,627
Total Equity	4,317,525	1,370,687	398,799	(1,928,702)	4,158,309	12,634	4,170,943
Total Liabilities and Equity	\$ 6,771,434	\$ 1,883,775	\$ 992,964	\$ 219,844	\$ 9,868,017	\$ 75,830,337	\$ 85,698,343

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23. Subsequent Events

Our significant events subsequent to March 31, 2016 were as follows:

Woodstar Portfolio Acquisitions

In April 2016, we acquired the final two properties in the Woodstar Portfolio, comprised of 628 units, which were previously under contract for an aggregate gross acquisition price of \$39.4 million. We assumed government sponsored debt of \$2.5 million and other third party debt of \$18.6 million at acquisition.

Dividend Declaration

On May 9, 2016, our board of directors declared a dividend of \$0.48 per share for the second quarter of 2016, which is payable on July 15, 2016 to common stockholders of record as of June 30, 2016.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with the information included elsewhere in this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the "Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the results discussed in the forward-looking statements. See "Special Note Regarding Forward-Looking Statements" at the beginning of this Quarterly Report on Form 10-Q.

Overview

Starwood Property Trust, Inc. ("STWD" and together with its subsidiaries, "we" or the "Company") is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering ("IPO"). We are focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities ("CMBS"), and other commercial real estate investments in both the U.S. and Europe. We refer to the following as our target assets: commercial real estate mortgage loans, preferred equity interests, CMBS and other commercial real estate-related debt investments. Our target assets may also include residential mortgage-backed securities ("RMBS"), certain residential mortgage loans, distressed or non-performing commercial loans, commercial properties subject to net leases and equity interests in commercial real estate. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have three reportable business segments as of March 31, 2016:

- Real estate lending (the "Lending Segment")— engages primarily in originating, acquiring, financing and managing commercial first mortgages, subordinated mortgages, mezzanine loans, preferred equity, CMBS, RMBS and other real estate and real estate-related debt investments in both the U.S. and Europe that are held-for-investment.
- Real estate investing and servicing (the "Investing and Servicing Segment")—includes (i) servicing businesses in both the U.S. and Europe that manage and work out problem assets, (ii) an investment business that selectively acquires and manages unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions, and (iv) an investment business that selectively acquires commercial real estate assets, including properties acquired from CMBS trusts. This segment excludes the consolidation of securitization variable interest entities ("VIEs").

Real estate property (the “Property Segment”)— engages primarily in acquiring and managing equity interests in stabilized commercial real estate properties, including multi-family properties, that are held for investment.

Refer to Note 1 of our condensed consolidated financial statements included herein (the “Condensed Consolidated Financial Statements”) for further discussion of our business and organization.

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Developments During the First Quarter of 2016

- The Lending Segment originated or acquired the following loans during the quarter:
 - o \$162.0 million first mortgage and mezzanine loan for the acquisition and renovation of a 10-building office and warehouse complex located in Brooklyn, New York, of which the Company funded \$80.0 million.
 - o \$105.0 million first mortgage secured by two Class A multifamily properties located in Orlando, Florida, which was fully funded upon acquisition.
 - o \$65.0 million first mortgage and mezzanine loan for the refinancing of a data center located in Orlando, Florida, of which the Company funded \$60.0 million.
 - o \$54.2 million first mortgage and mezzanine loan for the acquisition and renovation of a 491-room hotel located in Cincinnati, Ohio, of which the Company funded \$46.4 million.
- Acquired 12 of the 32 affordable housing communities which comprise our “Woodstar Portfolio.” These 12 properties include 3,082 units, total assets of \$227.4 million and assumed liabilities of \$147.5 million, which includes federal, state and county sponsored financing.
- Funded \$185.6 million of previously originated loan commitments.
 - Received proceeds of \$290.6 million from maturities, sales and principal repayments on loans.
- Purchased \$46.6 million and \$41.5 million of CMBS and RMBS, respectively.
- Originated new conduit loans of \$200.6 million and received proceeds of \$257.0 million from sales of conduit loans.
- Acquired commercial real estate from CMBS trusts for a gross purchase price of \$24.9 million.
- Repurchased 1,052,889 shares of common stock at a total cost of \$19.7 million.

Subsequent Events

Refer to Note 23 to the Condensed Consolidated Financial Statements for disclosure regarding significant transactions that occurred subsequent to March 31, 2016.

Results of Operations

The discussion below is based on accounting principles generally accepted in the United States of America (“GAAP”) and therefore reflects the elimination of certain key financial statement line items related to the consolidation of variable interest entities (“VIEs”), particularly within revenues and other income, as discussed in Note 2 to the Condensed Consolidated Financial Statements. For a discussion of our results of operations excluding the impact of Accounting Standards Codification (“ASC”) Topic 810 as it relates to the consolidation of VIEs, refer to the Non-GAAP Financial Measures section herein.

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The following table compares our summarized results of operations for the three months ended March 31, 2016 and 2015 by business segment (amounts in thousands):

	For the Three Months Ended March 31,		
	2016	2015	\$ Change
Revenues:			
Lending Segment	\$ 124,468	\$ 135,931	\$ (11,463)
Investing and Servicing Segment	94,535	85,203	9,332
Property Segment	26,208	—	26,208
Investing and Servicing VIEs	(49,718)	(42,285)	(7,433)
	195,493	178,849	16,644
Costs and expenses (1):			
Lending Segment	26,209	27,859	(1,650)
Investing and Servicing Segment	35,118	37,697	(2,579)
Property Segment	31,398	2	31,396
Corporate	53,376	55,633	(2,257)
Investing and Servicing VIEs	219	236	(17)
	146,320	121,427	24,893
Other income (loss) (1):			
Lending Segment	(4,349)	4,141	(8,490)
Investing and Servicing Segment	(61,672)	35,246	(96,918)
Property Segment	(7,612)	2,608	(10,220)
Corporate	1,550	(5,278)	6,828
Investing and Servicing VIEs	50,050	42,591	7,459
	(22,033)	79,308	(101,341)
Income (loss) before income taxes:			
Lending Segment	93,910	112,213	(18,303)
Investing and Servicing Segment	(2,255)	82,752	(85,007)
Property Segment	(12,802)	2,606	(15,408)
Corporate	(51,826)	(60,911)	9,085
Investing and Servicing VIEs	113	70	43
	27,140	136,730	(109,590)
Income tax provision	(94)	(15,951)	15,857
Net income attributable to non-controlling interests	(389)	(416)	27
Net income attributable to Starwood Property Trust, Inc.	\$ 26,657	\$ 120,363	\$ (93,706)

(1) Effective April 1, 2015, we established a third business segment, the Property Segment, and transferred our existing equity method investment in four regional shopping malls (the "Retail Fund") and its associated income from our Lending Segment to our Property Segment. We have retrospectively reclassified prior periods to conform to these changes in presentation.

Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015

Lending Segment

Revenues

For the three months ended March 31, 2016, revenues of our Lending Segment decreased \$11.4 million to \$124.5 million, compared to \$135.9 million for the three months ended March 31, 2015. This decrease was primarily due to (i) a \$12.6 million decrease in interest income from investment securities principally due to maturities after March 31, 2015 of two preferred equity interests we held in companies that own commercial real estate, and the absence of \$5.4 million of income realized upon the collection of a RMBS in the first quarter of 2015, partially offset by (ii) a \$1.2

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million increase in interest income from loans, which reflects a \$125.7 million net increase in loan investments of our Lending Segment between March 31, 2015 and 2016.

Costs and Expenses

For the three months ended March 31, 2016, costs and expenses of our Lending Segment decreased \$1.7 million to \$26.2 million, compared to \$27.9 million for the three months ended March 31, 2015. This decrease was primarily due to a \$1.1 million decrease in our loan loss allowance and a \$0.4 million decrease in investment pursuit costs. A \$0.9 million decrease in general and administrative (“G&A”) expenses primarily due to lower compensation costs was offset by a \$0.8 million increase in interest expense associated with the various secured financing facilities used to fund the growth of our investment portfolio.

Net Interest Income (amounts in thousands)

	March 31, 2016	2015	Change
Interest income from loans	\$ 114,658	\$ 113,472	\$ 1,186
Interest income from investment securities	9,628	22,296	(12,668)
Interest expense	(22,335)	(21,523)	(812)
Net interest income	\$ 101,951	\$ 114,245	\$ (12,294)

For the three months ended March 31, 2016, net interest income of our Lending Segment decreased \$12.3 million to \$101.9 million compared to \$114.2 million for the three months ended March 31, 2015. This decrease primarily reflects the \$12.6 million decrease in interest income from investment securities explained in the Revenues discussion above.

During the three months ended March 31, 2016, the weighted average unlevered and levered yields on the Lending Segment’s loans and investment securities were 7.4% and 10.0%, respectively. During the three months ended March 31, 2015, the weighted average unlevered and levered yields on the Lending Segment’s loans and investment securities were 7.7% and 10.4%, respectively. The slight decrease in the weighted average unlevered and levered yields is primarily due to a gradual decline of interest rate spreads over the last twelve months.

During the three months ended March 31, 2016 and 2015, the Lending Segment’s weighted average secured borrowing rates, inclusive of interest rate hedging costs and the amortization of deferred financing fees, were 3.7% and 3.5%, respectively. This increase in borrowing rates primarily reflects increases in certain debt fees.

Other Income (Loss)

For the three months ended March 31, 2016, other income (loss) of our Lending Segment decreased \$8.5 million to a loss of \$4.4 million, compared to income of \$4.1 million for the three months ended March 31, 2015. The decrease was primarily due to an unfavorable swing of \$35.9 million in gain (loss) on derivatives partially offset by a \$27.5 million decrease in foreign currency loss. The unfavorable swing in gain (loss) on derivatives reflects a \$33.4 million decrease in the gain on foreign currency hedges and a \$2.5 million increased loss on interest rate swaps. The foreign currency hedges are used to fix the U.S. dollar amounts of cash flows (both interest and principal payments) we expect to receive from our foreign currency denominated loans and CMBS investments. The gains on those hedges reflect the overall strengthening of the U.S. dollar against the pound sterling (“GBP”). The interest rate swaps are used primarily to fix our interest rate payments on variable rate borrowings. The decrease in gain on foreign currency hedges is greater than the offsetting decrease in foreign currency loss mainly because the portion of unrealized foreign currency loss associated with an investment security held in 2015 was reported in accumulated other comprehensive income (“AOCI”) rather than earnings, in accordance with GAAP, whereas the full change in fair value of the related currency hedge was reported in earnings since it was not a designated hedge.

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Investing and Servicing Segment and VIEs

Revenues

For the three months ended March 31, 2016, revenues of our Investing and Servicing Segment increased \$1.9 million to \$44.8 million after consolidated VIE eliminations of \$49.7 million, compared to \$42.9 million after consolidated VIE eliminations of \$42.3 million for the three months ended March 31, 2015. The VIE eliminations are merely a function of the number of CMBS trusts consolidated in any given period, and as such, are not a meaningful indicator of the operating results for this segment. The increase in revenues in the first quarter of 2016 was primarily due to increases of \$4.3 million in interest income from CMBS investments and \$3.8 million in rental income on our expanded REO Portfolio (see Note 3 to the Condensed Consolidated Financial Statements), partially offset by decreases of \$3.6 million in servicing fees and \$2.1 million in interest income on loans held-for-sale. The \$4.3 million increase in CMBS interest income reflects an \$18.6 million increase in VIE eliminations related to the CMBS trusts we consolidate. Excluding the effect of these eliminations, CMBS interest income increased by \$22.9 million, reflecting a \$205.7 million net increase in this segment's CMBS investments between March 31, 2015 and 2016.

Costs and Expenses

For the three months ended March 31, 2016, costs and expenses of our Investing and Servicing Segment decreased \$2.6 million to \$35.3 million, compared to \$37.9 million for the three months ended March 31, 2015, inclusive of VIE eliminations which were nominal for both periods. The decrease in costs and expenses was primarily due to lower incentive compensation, partially offset by an increase in interest expense on secured financings for CMBS and the REO Portfolio.

Other Income (Loss)

For the three months ended March 31, 2016, other income (loss) of our Investing and Servicing Segment decreased \$89.4 million to a loss of \$11.6 million including additive net VIE eliminations of \$50.0 million, from income of \$77.8 million including additive net VIE eliminations of \$42.6 million for the three months ended March 31, 2015. The decrease in other income (loss) in the first quarter of 2016 compared to the first quarter of 2015 was primarily due to a decrease of \$52.0 million in the change in value of net assets related to consolidated VIEs, the absence of a \$17.1 million gain on sale of a commercial real estate asset realized in the first quarter of 2015 and a \$14.2 million lesser increase in fair value of loans held-for-sale. The change in net assets related to consolidated VIEs reflects amounts associated with the Investing and Servicing Segment's variable interests in CMBS trusts it consolidates, including special servicing fees, interest income, and changes in fair value of CMBS and servicing rights. As noted above, this number is merely a function of the number of CMBS trusts consolidated in any given period, and as such, is not a meaningful indicator of the operating results for this segment. Before VIE eliminations,

there was a decrease in fair value of CMBS securities of \$51.5 million and an increase of \$8.3 million in the three months ended March 31, 2016 and 2015, respectively.

Income Tax Provision

Historically, our consolidated income tax provision principally relates to the taxable nature of the Investing and Servicing Segment's loan servicing and loan conduit businesses which are housed in TRSs. Our tax provision for the three months ended March 31, 2016, as well as the overall effective tax rate, is lower than for the three months ended March 31, 2015 primarily due to a decrease in the taxable income of our TRSs.

Property Segment

During the three months ended March 31, 2015, there was no significant activity in the Property Segment except for equity in earnings of the Retail Fund. Therefore a comparison of results of this segment for the three months ended March 31, 2015 to the three months ended March 31, 2016 is not meaningful.

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Revenues

For the three months ended March 31, 2016, revenues of our Property Segment of \$26.2 million consisted of rental income of \$18.2 million from our Woodstar Portfolio and \$8.0 million from our Ireland Portfolio, both of which are described in Note 3 to the Condensed Consolidated Financial Statements.

Costs and Expenses

For the three months ended March 31, 2016, costs and expenses of our Property Segment of \$31.4 million consisted principally of \$15.7 million of depreciation and amortization, \$9.6 million of other rental related costs, \$4.9 million of interest expense on the secured financing for the Woodstar and Ireland Portfolios and \$0.6 million of acquisition and investment pursuit costs.

Other Income (Loss)

For the three months ended March 31, 2016, other loss of our Property Segment of \$7.6 million consisted primarily of a \$10.0 million loss on foreign currency contracts that economically hedge our Euro currency exposure with respect to the Ireland Portfolio, partially offset by \$2.4 million of equity in earnings from the Retail Fund.

Corporate

Costs and Expenses

For the three months ended March 31, 2016, corporate expenses decreased \$2.2 million to \$53.4 million, compared to \$55.6 million for the three months ended March 31, 2015. The decrease was primarily due to a \$3.0 million decrease in management fees.

Other Income (Loss)

For the three months ended March 31, 2016, corporate other income (loss) increased \$6.8 million to income of \$1.5 million, compared to a loss of \$5.3 million for the three months ended March 31, 2015. Corporate other income of \$1.5 million for the three months ended March 31, 2016 represents a reimbursement received related to a partnership guarantee arrangement. Corporate other loss of \$5.3 million for the three months ended March 31, 2015 represents a loss on the repurchase of \$104.1 million of convertible senior notes due 2019.

Non-GAAP Financial Measures

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

- (i) non-cash equity compensation expense;
- (ii) incentive fees due under our management agreement;
- (iii) depreciation and amortization of real estate and associated intangibles;
- (iv) losses on extinguishment of debt;
- (v) acquisition costs associated with successful acquisitions (effective July 1, 2015); and
- (vi) any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income.

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

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

In assessing the appropriate weighted average diluted share count to apply to Core Earnings for purposes of determining Core Earnings per share (“EPS”), management considered the following attributes of our current GAAP diluted share methodology: (i) our unvested stock awards representing participating securities were determined to be anti-dilutive and were thus excluded from the denominator of the EPS calculation; and (ii) the portion of the convertible senior notes that are “in-the-money” (referred to as the “conversion spread value”), representing the value that would be delivered to investors in shares upon an assumed conversion, is included in the denominator. Because compensation expense related to unvested stock awards is added back for Core Earnings purposes pursuant to the definition above, there is no dilution to Core Earnings resulting from the associated expense recognition. As a result, for purposes of determining Core EPS, our GAAP EPS methodology was adjusted to include (instead of exclude) such unvested awards. Further, conversion of the convertible senior notes is an event that is contingent upon numerous factors, none of which are in our control, and is an event that may or may not occur. Consistent with the treatment of other unrealized adjustments to Core Earnings, our GAAP EPS methodology was adjusted to exclude (instead of include) the conversion spread value in determining Core EPS until a conversion actually occurs. The following table presents our diluted weighted average shares used in our GAAP EPS calculation reconciled to our diluted weighted average shares used in our Core EPS calculation (amounts in thousands):

	For the Three Months Ended March 31,	
	2016	2015
Diluted weighted average shares - GAAP	236,759	229,032
Add: Unvested stock awards	1,793	2,014
Less: Conversion spread value	—	(5,353)
Diluted weighted average shares - Core	238,552	225,693

The definition of Core Earnings allows management to make adjustments, subject to the approval of a majority of our independent directors, in situations where such adjustments are considered appropriate in order for Core Earnings to be calculated in a manner consistent with its definition and objective. No adjustments to the definition of Core Earnings occurred during the three months ended March 31, 2016.

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Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015

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

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Total
Revenues	\$ 124,468	\$ 94,535	\$ 26,208	\$ —	\$ 245,211
Costs and expenses	(26,209)	(35,118)	(31,398)	(53,376)	(146,101)
Other income (loss)	(4,349)	(61,672)	(7,612)	1,550	(72,083)
Income (loss) before income taxes	93,910	(2,255)	(12,802)	(51,826)	27,027
Income tax provision	(75)	(19)	—	—	(94)
(Income) loss attributable to non-controlling interests	(350)	74	—	—	(276)
Net income (loss) attributable to Starwood Property Trust, Inc.	93,485	(2,200)	(12,802)	(51,826)	26,657
Add / (Deduct):					
Non-cash equity compensation expense	582	1,086	33	5,383	7,084
Management incentive fee	—	—	—	4,599	4,599
Acquisition and investment pursuit costs	—	589	558	—	1,147
Depreciation and amortization	—	2,206	15,720	—	17,926
Loan loss allowance, net	(761)	—	—	—	(761)
Interest income adjustment for securities	(261)	889	—	—	628
Other non-cash items	—	—	(1,608)	—	(1,608)
Reversal of unrealized (gains) / losses on:					
Loans held-for-sale	—	(6,891)	—	—	(6,891)
Securities	214	51,528	—	—	51,742
Derivatives	2,347	10,763	10,447	—	23,557
Foreign currency	1,822	(1,460)	16	—	378
Earnings from unconsolidated entities	(468)	(1,377)	(2,429)	—	(4,274)
Recognition of realized gains / (losses) on:					
Loans held-for-sale	—	4,792	—	—	4,792
Securities	—	(3,323)	—	—	(3,323)
Derivatives	554	(6,712)	(70)	—	(6,228)
Foreign currency	(67)	1,354	(15)	—	1,272
Earnings from unconsolidated entities	1,072	1,125	—	—	2,197
Core Earnings (Loss)	\$ 98,519	\$ 52,369	\$ 9,850	\$ (41,844)	\$ 118,894
Core Earnings (Loss) per Weighted Average Diluted Share	\$ 0.41	\$ 0.22	\$ 0.04	\$ (0.17)	\$ 0.50

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The following table presents our summarized results of operations and reconciliation to Core Earnings for the three months ended March 31, 2015, by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Total
Revenues	\$ 135,931	\$ 85,203	\$ —	\$ —	\$ 221,134
Costs and expenses (1)	(27,859)	(37,697)	(2)	(55,633)	(121,191)
Other income (1)	4,141	35,246	2,608	(5,278)	36,717
Income (loss) before income taxes	112,213	82,752	2,606	(60,911)	136,660
Income tax benefit (provision)	30	(15,981)	—	—	(15,951)
Income attributable to non-controlling interests	(346)	—	—	—	(346)
Net income (loss) attributable to Starwood Property Trust, Inc.	111,897	66,771	2,606	(60,911)	120,363
Add / (Deduct):					
Non-cash equity compensation expense	177	263	—	7,051	7,491
Management incentive fee	—	—	—	6,679	6,679
Depreciation and amortization	—	442	—	—	442
Loan loss allowance, net	317	—	—	—	317
Interest income adjustment for securities	(63)	3,787	—	—	3,724
Other non-cash items	—	(775)	—	—	(775)
Reversal of unrealized (gains) / losses on:					
Loans held-for-sale	—	(21,131)	—	—	(21,131)
Securities	339	(8,313)	—	—	(7,974)
Derivatives	(33,667)	6,709	233	—	(26,725)
Foreign currency	29,336	1,171	(200)	—	30,307
Earnings from unconsolidated entities	—	(2,724)	—	—	(2,724)
Recognition of realized gains / (losses) on:					
Loans held-for-sale	—	17,435	—	—	17,435
Securities	—	1,371	—	—	1,371
Derivatives	2,928	(4,433)	—	—	(1,505)
Foreign currency	(3,957)	(1,445)	—	—	(5,402)
Earnings from unconsolidated entities	—	1,789	—	—	1,789
Core Earnings (Loss)	\$ 107,307	\$ 60,917	\$ 2,639	\$ (47,181)	\$ 123,682
Core Earnings (Loss) per Weighted Average Diluted Share	\$ 0.48	\$ 0.27	\$ 0.01	\$ (0.21)	\$ 0.55

(1) Certain prior period costs and expenses and other income have been reclassified from the Lending Segment to the Property Segment to conform to our current period presentation of both GAAP and non-GAAP financial measures. Refer to Note 22 of our Condensed Consolidated Financial Statements for further information.

Lending Segment

The Lending Segment's Core Earnings decreased by \$8.8 million, from \$107.3 million during the first quarter of 2015 to \$98.5 million in the first quarter of 2016. After making adjustments for the calculation of Core Earnings, revenues were \$124.2 million, costs and expenses were \$26.4 million and other income was \$1.1 million.

Core revenues, consisting principally of interest income on loans, decreased by \$11.7 million in the first quarter of 2016 primarily due to (i) a \$12.9 million decrease in interest income from investment securities principally due to maturities after March 31, 2015 of two preferred equity interests we held in companies that own commercial real estate, and the absence of \$5.4 million of income realized upon the collection of a RMBS in the first quarter of 2015, partially offset by (ii) a \$1.2 million increase in interest income from loans, which reflects a \$125.7 million net increase in loan investments of our Lending Segment between March 31, 2015 and 2016.

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Core costs and expenses decreased by \$1.0 million in the first quarter of 2016 primarily due to a \$1.4 million decrease in G&A expenses reflecting lower compensation costs and a \$0.4 million decrease in investment pursuit costs, partially offset by a \$0.8 million increase in interest expense associated with the various secured financing facilities used to fund the growth of our investment portfolio.

Core other income (loss) improved by \$2.0 million, principally due to a decrease in losses on foreign currency denominated assets, partially offset by a decrease in gains on related derivatives.

Investing and Servicing Segment

The Investing and Servicing Segment's Core Earnings decreased by \$8.5 million, from \$60.9 million during the first quarter of 2015 to \$52.4 million in the first quarter of 2016. After making adjustments for the calculation of Core Earnings, revenues were \$95.5 million, costs and expenses were \$31.3 million, other loss was \$11.8 million and income taxes were nominal.

Core revenues increased by \$6.5 million in the first quarter of 2016, primarily due to increases of \$20.0 million in interest income from our CMBS portfolio and \$3.8 million in rental income on our expanded REO Portfolio, partially offset by decreases of \$14.7 million in servicing fees and \$2.1 million in interest income on loans held-for-sale.

Core costs and expenses decreased by \$6.0 million in the first quarter of 2016, primarily due to lower incentive compensation, partially offset by an increase in interest expense on secured financings for CMBS and the REO Portfolio.

Core other income decreased by \$37.0 million to a loss in the first quarter of 2016, primarily reflecting the absence of both a \$16.6 million gain on the sale of a commercial real estate asset and \$11.2 million of gains on sales of CMBS, combined with a \$12.6 million decrease in gains on sales of conduit loans.

Income taxes, which principally relate to the operating results of our servicing and conduit businesses which are held in TRSs, decreased \$16.0 million due to a decrease in the taxable income of our TRSs.

Property Segment

During the three months ended March 31, 2015, there was no significant activity in the Property Segment except for equity in earnings of the Retail Fund. Therefore a comparison of results of this segment for the three months ended March 31, 2016 to the three months ended March 31, 2015 is not meaningful.

The Property Segment contributed Core Earnings of \$9.8 million during the first quarter of 2016. After making adjustments for the calculation of Core Earnings, revenues were \$24.6 million, costs and expenses were \$15.1 million and other income was \$0.3 million.

Core revenues consisted of \$24.6 million of rental income from the Woodstar and Ireland Portfolios.

Core costs and expenses of \$15.1 million consisted primarily of \$9.6 million of rental related costs and \$4.9 million of interest expense on the secured financing for the Woodstar and Ireland Portfolios.

Corporate

Core corporate costs and expenses decreased by \$5.4 million, from \$47.2 million in the first quarter of 2015 to \$41.8 million in the first quarter of 2016. This decrease was primarily due to the absence of a \$5.3 million loss on extinguishment of a portion of our convertible senior notes due 2019 during the first quarter of 2015.

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Liquidity and Capital Resources

Liquidity is a measure of our ability to meet our cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make new investments where appropriate, pay dividends to our stockholders, and other general business needs. We closely monitor our liquidity position and believe that we have sufficient current liquidity and access to additional liquidity to meet our financial obligations for at least the next 12 months. Our strategy for managing liquidity and capital resources has not changed since December 31, 2015, other than as set forth below. Refer to our Form 10-K for a description of these strategies.

Cash and Cash Equivalents

As of March 31, 2016, we had cash and cash equivalents of \$335.2 million.

Cash Flows for the Three Months Ended March 31, 2016 (amounts in thousands)

	GAAP	VIE Adjustments	Excluding Investing and Servicing VIEs
Net cash provided by operating activities	\$ 131,129	\$ (66)	\$ 131,063
Cash Flows from Investing Activities:			
Origination and purchase of loans held-for-investment	(472,237)	(17,860)	(490,097)
Proceeds from principal collections and sale of loans	290,695	—	290,695
Purchase of investment securities	(84,337)	(13,395)	(97,732)
Proceeds from sales and collections of investment securities	22,344	8,319	30,663
Real estate business combinations, net of cash acquired	(73,639)	(24,653)	(98,292)
Net cash flows from other investments and assets	(6,575)	—	(6,575)
Decrease in restricted cash, net	(24,930)	—	(24,930)
Net cash used in investing activities	(348,679)	(47,589)	(396,268)
Cash Flows from Financing Activities:			
Borrowings under financing agreements	991,192	—	991,192
Principal repayments on and repurchases of borrowings	(626,462)	—	(626,462)
Payment of deferred financing costs	(5,969)	—	(5,969)
Proceeds from common stock issuances, net of offering costs	82	—	82
Payment of dividends	(114,624)	—	(114,624)

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Contributions from non-controlling interests	6,584	—	6,584
Distributions to non-controlling interests	(582)	—	(582)
Purchase of treasury stock	(19,723)	—	(19,723)
Issuance of debt of consolidated VIEs	596	(596)	—
Repayment of debt of consolidated VIEs	(55,729)	55,729	