Resource Capital Corp.
Form 10-Q
May 10, 2018

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

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to __________

Commission File Number: 1-32733
RESOURCE CAPITAL CORP.
(Exact name of registrant as specified in its charter)

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

717 Fifth Avenue, New York, New York 10022
(Address of principal executive offices) (Zip Code)

(212) 621-3210
(Registrant's telephone number, including area code)

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The number of outstanding shares of the registrant's common stock on May 4, 2018 was 31,650,417 shares.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
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PART I
ITEM 1. FINANCIAL STATEMENTS
RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS [1]		
Cash and cash equivalents	$61,500	$181,490
Restricted cash	546	22,874
Accrued interest receivable	6,945	6,859
CRE loans, net of allowances of $4,529 and $5,328	1,376,999	1,284,822
Investment securities available-for-sale	250,746	211,737
Investment securities, trading	164	178
Loans held for sale	—	13
Principal paydowns receivable	20	76,129
Investments in unconsolidated entities	6,439	12,051
Derivatives, at fair value	1,751	602
Direct financing leases, net of allowances of $735	89	151
Other assets	6,981	7,451
Assets held for sale (amounts include $57,341 and $61,841 of legacy CRE loans held for sale in continuing operations, see Note 21)	77,621	107,718
Total assets	$1,789,801	$1,912,075
LIABILITIES [2]		
Accounts payable and other liabilities	$6,654	$5,153
Management fee payable	938	1,035
Accrued interest payable	3,244	4,387
Borrowings	1,222,386	1,163,485
Distributions payable	3,308	5,581
Preferred stock redemption liability	—	50,000
Derivatives, at fair value	—	76
Accrued tax liability	209	540
Liabilities held for sale (see Note 21)	2,883	10,342
Total liabilities	1,239,622	1,240,599
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.001: 10,000,000 shares authorized 8.25% Series B Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share; 0 and 4,613,596 shares issued and outstanding	—	5
Preferred stock, par value $0.001: 10,000,000 shares authorized 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share; 4,800,000 and 4,800,000 shares issued and outstanding	5	5
Common stock, par value $0.001: 125,000,000 shares authorized; 31,650,417 and 31,429,892 shares issued and outstanding (including 465,808 and 483,073 unvested restricted shares)	32	31
Additional paid-in capital	1,080,927	1,187,911
Accumulated other comprehensive income	1,154	1,297
Distributions in excess of earnings	(531,939)	(517,773)
Total stockholders' equity	550,179	671,476

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,789,801	$ 1,912,075

The accompanying notes are an integral part of these statements

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

	March 31, 2018 (unaudited)	December 31, 2017
(1) Assets of consolidated variable interest entities ("VIEs") included in total assets above:		
Restricted cash	$ 513	$ 20,846
Accrued interest receivable	2,728	3,347
CRE loans, pledged as collateral and net of allowances of $844 and $1,330	571,640	603,110
Loans held for sale	—	13
Principal paydowns receivable	20	72,207
Other assets	188	73
Total assets of consolidated VIEs	$ 575,089	$ 699,596
(2) Liabilities of consolidated VIEs included in total liabilities above:		
Accounts payable and other liabilities	$ 65	$ 96
Accrued interest payable	412	592
Borrowings	298,970	416,655
Total liabilities of consolidated VIEs	$ 299,447	$ 417,343

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

	For the Three Months Ended March 31, 2018	2017
REVENUES		
Interest income:		
CRE loans	$22,383	$ 21,533
Securities	3,456	2,308
Other	118	1,630
Total interest income	25,957	25,471
Interest expense	14,384	14,254
Net interest income	11,573	11,217
Other (expense) revenue	(95)	928
Total revenues	11,478	12,145
OPERATING EXPENSES		
Management fees	2,813	2,680
Equity compensation	967	788
General and administrative	3,060	3,863
Depreciation and amortization	13	68
Impairment losses	—	177
(Recovery of) provision for loan and lease losses, net	(799)	999
Total operating expenses	6,054	8,575
	5,424	3,570
OTHER INCOME (EXPENSE)		
Equity in (losses) earnings of unconsolidated entities	(292)	361
Net realized and unrealized (loss) gain on investment securities available-for-sale and loans and derivatives	(642)	7,606
Net realized and unrealized loss on investment securities, trading	(5)	(911)
Fair value adjustments on financial assets held for sale	(4,665)	(21)
Other income	11	68
Total other (expense) income	(5,593)	7,103
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	(169)	10,673
Income tax benefit (expense)	32	(1,499)
NET (LOSS) INCOME FROM CONTINUING OPERATIONS	(137)	9,174
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	247	(561)
NET INCOME	110	8,613
Net income allocated to preferred shares	(5,210)	(6,014)
Consideration paid in excess of carrying value of preferred shares	(7,482)	—
Net loss allocable to non-controlling interest, net of taxes	—	101
NET (LOSS) INCOME ALLOCABLE TO COMMON SHARES	$(12,582)	$ 2,700
NET (LOSS) INCOME PER COMMON SHARE - BASIC:		
CONTINUING OPERATIONS	$(0.41)	$ 0.11
DISCONTINUED OPERATIONS	$0.01	$ (0.02)

TOTAL NET (LOSS) INCOME PER COMMON SHARE - BASIC	$(0.40)	$ 0.09
NET (LOSS) INCOME PER COMMON SHARE - DILUTED:		
CONTINUING OPERATIONS	$(0.41)	$ 0.11
DISCONTINUED OPERATIONS	$0.01	$ (0.02)
TOTAL NET (LOSS) INCOME PER COMMON SHARE - DILUTED	$(0.40)	$ 0.09
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	31,111,315	30,752,006
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	31,111,315	30,914,148

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

	For the Three Months Ended March 31,	
	2018	2017
Net income	$110	$8,613
Other comprehensive income (loss):		
Reclassification adjustments for realized losses on investment securities available-for-sale included in net income	217	—
Unrealized (losses) gains on investment securities available-for-sale, net	(1,509)	134
Reclassification adjustments associated with unrealized losses from interest rate hedges included in net income	—	18
Unrealized gains on derivatives, net	1,149	—
Total other comprehensive (loss) income	(143)	152
Comprehensive (loss) income before allocation to non-controlling interests and preferred shares	(33)	8,765
Net loss allocable to non-controlling interest	—	101
Net income allocated to preferred shares	(5,210)	(6,014)
Consideration paid in excess of carrying value of preferred shares	(7,482)	—
Comprehensive (loss) income allocable to common shares	$(12,725)	$2,852

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2018
(in thousands, except share and per share data)
(unaudited)

	Common Stock		Series B	Series C	Additional	Accumulated Other		Distributions	Total
	Shares	Amount	Preferred Stock	Preferred Stock	Paid-In Capital	Comprehensive Income	Retained Earnings	in Excess of Earnings	Stockholders' Equity
Balance, January 1, 2018	31,429,892	$ 31	$ 5	$ 5	$ 1,187,911	$ 1,297	$ —	$ (517,773)	$ 671,476
Offering costs	—	—	—	—	—	—	—	—	—
Stock based compensation	229,384	1	—	—	—	—	—	—	1
Amortization of stock based compensation	—	—	—	—	967	—	—	—	967
Retirement of common stock	(7,134)	—	—	—	(70)	—	—	—	(70)
Forfeiture of unvested stock	(1,725)	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	110	—	110
Distributions on preferred stock	—	—	—	—	—	—	(5,210)	—	(5,210)
Preferred stock redemption	—	—	(5)	—	(107,881)	—	(7,482)	—	(115,368)
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	(1,292)	—	—	(1,292)
Designated derivatives, fair value adjustment	—	—	—	—	—	1,149	—	—	1,149
Distributions on common stock	—	—	—	—	—	—	12,582	(14,166)	(1,584)
Balance, March 31, 2018	31,650,417	$ 32	$ —	$ 5	$ 1,080,927	$ 1,154	$ —	$ (531,939)	$ 550,179

The accompanying notes are an integral part of these statements

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

	For the Three Months Ended March 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$110	$8,613
Net (income) loss from discontinued operations, net of tax	(247)	561
Net (loss) income from continuing operations	(137)	9,174
Adjustments to reconcile net (loss) income from continuing operations to net cash provided by continuing operating activities:		
(Recovery of) provision for loan and lease losses, net	(799)	999
Depreciation, amortization and accretion	916	(349)
Amortization of stock based compensation	967	788
Sale of and principal payments on syndicated corporate loans held for sale	41	1,076
Sale of and principal payments on investment securities, trading, net	—	4,493
Net realized and unrealized loss on investment securities, trading	5	911
Net realized and unrealized loss (gain) on investment securities available-for-sale and loans and derivatives	642	(7,606)
Fair value adjustments on financial assets held for sale	4,665	21
Impairment losses	—	177
Equity in losses (earnings) of unconsolidated entities	292	(361)
Return on investment from investments in unconsolidated entities	—	6,292
Changes in operating assets and liabilities	5,119	1,465
Net cash provided by continuing operating activities	11,711	17,080
Net cash (used in) provided by discontinued operating activities	(105)	47,205
Net cash provided by operating activities	11,606	64,285
CASH FLOWS FROM INVESTING ACTIVITIES:		
Origination and purchase of loans	(142,124)	(119,240)
Principal payments received on loans and leases	127,456	116,159
Proceeds from sale of loans	—	21,250
Purchase of investment securities available-for-sale	(43,284)	—
Principal payments on investment securities available-for-sale	3,572	7,519
Proceeds from sale of investment securities available-for-sale	59	9,422
Return of capital from investments in unconsolidated entities	5,376	7,703
Settlement of derivative instruments	(46)	106
Net cash (used in) provided by continuing investing activities	(48,991)	142,919
Net cash provided by discontinued investing activities	12,730	4,902
Net cash (used in) provided by investing activities	(36,261)	147,821
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	—	(74)
Retirement of common stock	(56)	—
Repurchase of preferred stock	(165,340)	—

Net proceeds from repurchase agreements	175,042	83,513
Payments on borrowings:		
Securitizations	(118,243)	(100,542)
Distributions paid on preferred stock	(7,495)	(6,014)
Distributions paid on common stock	(1,571)	(1,550)
Net cash used in continuing financing activities	(117,663)	(24,667)
Net cash used in discontinued financing activities	—	(44,233)
Net cash used in financing activities	(117,663)	(68,900)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(142,314)	83,206

The accompanying notes are an integral part of these statements

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

	For the Three Months Ended March 31,	
	2018	2017
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	204,364	119,425
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$62,046	$162,631
SUPPLEMENTAL DISCLOSURE:		
Interest expense paid in cash	$13,266	$12,648
Income taxes paid in cash	$—	$515

The accompanying notes are an integral part of these statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(unaudited)

NOTE 1 - ORGANIZATION

Resource Capital Corp., a Maryland corporation, and its subsidiaries (collectively, the "Company") is a real estate investment trust ("REIT") that is primarily focused on originating, holding and managing commercial mortgage loans and commercial real estate-related debt investments. The Company is externally managed by Resource Capital Manager, Inc. (the "Manager"), which is an indirect wholly-owned subsidiary of C-III Capital Partners LLC ("C-III"), a leading commercial real estate ("CRE") investment management and services company engaged in a broad range of activities. C-III is the beneficial owner of approximately 2.4% of the Company's outstanding common shares at March 31, 2018.

The Company has qualified, and expects to qualify in the current fiscal year, as a REIT.

In November 2016, the Company received approval from its board of directors (the "Board") to execute a strategic plan (the "Plan") to focus its strategy on CRE debt investments. The Plan contemplates disposing of certain loans underwritten prior to 2010 ("legacy CRE loans"), exiting underperforming non-core asset classes (residential real estate-related assets and commercial finance assets) and establishing a dividend policy based on sustainable earnings. As a result, the Company evaluated its residential mortgage and middle market lending segments' assets and liabilities and determined both met all of the criteria to be classified as held for sale in the fourth quarter of 2016. As a result of the reclassification, these segments are reported as discontinued operations and have been excluded from continuing operations. See Note 21 for further discussion.

The following subsidiaries are consolidated in the Company's financial statements:

- RCC Real Estate, Inc. ("RCC Real Estate"), a wholly-owned subsidiary, holds CRE loans, CRE-related securities and historically has held direct investments in real estate. RCC Real Estate owns 100.0% of the equity of the following VIEs:

Resource Capital Corp. CRE Notes 2013, Ltd. ("RCC CRE Notes 2013") and Resource Capital Corp. 2014-CRE2, Ltd. ("RCC 2014-CRE2") were established to complete CRE securitization issuances secured by a portfolio of CRE loans. In December 2016 and August 2017, RCC CRE Notes 2013 and RCC 2014-CRE2, respectively, were liquidated and, as a result, the remaining assets were returned to the Company in exchange for the Company's preference shares and equity notes in the securitizations.

Resource Capital Corp. 2015-CRE3, Ltd. ("RCC 2015-CRE3"), Resource Capital Corp. 2015-CRE4, Ltd. ("RCC 2015-CRE4") and Resource Capital Corp. 2017-CRE5, Ltd. ("RCC 2017-CRE5") were each established to complete CRE securitization issuances secured by a separate portfolio of loans.

- RCC Commercial, Inc. ("RCC Commercial"), a wholly-owned subsidiary, holds a 29.6% investment in NEW NP, LLC ("New NP, LLC"), which holds one directly originated middle market loan and historically held syndicated corporate loan investments. New NP, LLC is reported in discontinued operations, see Note 21 for further discussion. RCC Commercial also owns 100.0% of Apidos CDO III, Ltd. ("Apidos CDO III"). Apidos CDO III, a taxable REIT subsidiary ("TRS"), was established to complete a collateralized debt obligation ("CDO") issuance secured by a portfolio of syndicated corporate loans and asset-backed securities ("ABS"). In June 2015, the Company liquidated Apidos CDO III and, as a result, all of the assets were sold.

- RCC Commercial II, Inc. ("Commercial II"), a wholly-owned subsidiary, invests in structured notes and subordinated notes of foreign, syndicated corporate loan collateralized loan obligation ("CLO") vehicles. Commercial II also owns equity in the following VIEs:

Commercial II owns 100.0% of the equity of Apidos Cinco CDO ("Apidos Cinco"), a TRS that was established to complete a CDO issuance secured by a portfolio of syndicated corporate loans, ABS and corporate bonds. In November 2016, the Company liquidated and sold substantially all of Apidos Cinco's assets. The remaining assets were consolidated by the Company upon liquidation and are marked at fair value.

Commercial II owns 68.3% of the equity of Whitney CLO I, Ltd. ("Whitney CLO I"), a TRS that holds residual assets following a September 2013 liquidation.

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- RCC Commercial III, Inc. ("Commercial III"), a wholly-owned subsidiary, holds investments in syndicated corporate loan investments. Commercial III owns 90.0% of the equity of Apidos CDO I, LTD. ("Apidos CDO I"). Apidos CDO I, a TRS, was established to complete a CDO issuance secured by a portfolio of syndicated corporate loans and ABS. In October 2014, the Company liquidated Apidos CDO I and as a result substantially all of the assets were sold.
- RSO EquityCo, LLC, a wholly-owned subsidiary, owns 10.0% of the equity of Apidos CDO I.
- RCC Residential Portfolio, Inc. ("RCC Resi Portfolio"), a wholly-owned subsidiary, historically invested in residential mortgage-backed securities ("RMBS"). The remaining securities were sold in September 2017.
- RCC Residential Portfolio TRS, Inc. ("RCC Resi TRS"), a wholly-owned TRS, was formed to hold strategic residential mortgage positions that could not be held by RCC Resi Portfolio. RCC Resi TRS also owns 100.0% of the equity, unless otherwise stated, in the following:

Primary Capital Mortgage, LLC ("PCM") (formerly known as Primary Capital Advisors, LLC), originated and serviced residential mortgage loans. In November 2016, PCM's operations were reclassified to discontinued operations. PCM sold its residential mortgage loan pipeline, its mortgage servicing rights and its remaining loans held for sale. See Note 21 for further discussion.
RCM Global Manager, LLC ("RCM Global Manager") owns 63.8% of RCM Global LLC ("RCM Global"). RCM Global, accounted for as an equity method investment, held a portfolio of investment securities available-for-sale.
RCC Residential Depositor, LLC ("RCC Resi Depositor") owns 100.0% of RCC Residential Acquisition, LLC ("RCC Resi Acquisition"). Prior to the Plan, RCC Resi Acquisition purchased residential mortgage loans from PCM and transferred the assets to RCC Residential Opportunities Trust ("RCC Opp Trust"). RCC Opp Trust, a wholly-owned statutory trust, held a portfolio of residential mortgage loans, available-for-sale.
Long Term Care Conversion Funding, LLC ("LTCC Funding") provided a financing facility to fund the acquisition of life settlement contracts.
Life Care Funding, LLC ("LCF") was established for the purpose of acquiring life settlement contracts. In July 2017, the Company purchased the balance of the outstanding membership interests of LCF, therefore becoming a single member LLC. In 2018, substantially all the life settlement contracts were sold.
RCC TRS, LLC ("RCC TRS") holds investments in direct financing leases and investment securities, trading. RCC TRS also owns equity in the following:
RCC TRS owns 100.0% of the equity of Resource TRS, LLC, which in turn holds a 25.8% investment in New NP, LLC, which is reported in discontinued operations.
RCC TRS owns 44.6% of the equity in New NP, LLC, which is reported in discontinued operations.
RCC TRS owns 80.2% of the equity in Pelium Capital, L.P. ("Pelium Capital"). Pelium Capital, accounted for as an equity method investment, held investment securities, trading.
Resource Capital Asset Management, LLC ("RCAM") was entitled to collect senior, subordinated and incentive fees related to CLO issuers to which it provided management services through CVC Credit Partners, LLC ("CVC Credit Partners"), formerly Apidos Capital Management ("ACM"), a subsidiary of CVC Capital Partners SICAV-FIS, S.A. ("CVC"). C-III sold its 24.0% interest in CVC Credit Partners in August 2017.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2018
(unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the accounting policies set forth in Note 2 included in the Company's annual report on Form 10-K for the year ended December 31, 2017. The consolidated financial statements include the accounts of the Company, majority owned or controlled subsidiaries and VIEs for which the Company is considered the primary beneficiary. All inter-company transactions and balances have been eliminated in consolidation.

Basis of Presentation

All adjustments necessary to present fairly the Company's financial position, results of operations and cash flows have been made.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less at the time of purchase. At March 31, 2018 and December 31, 2017, approximately $58.3 million and $177.5 million, respectively, of the reported cash balances exceeded the Federal Deposit Insurance Corporation deposit insurance limit of $250,000 per institution. However, all of the Company's cash deposits are held at multiple, established financial institutions to minimize credit risk exposure.

Restricted cash includes required account balance minimums primarily for the Company's CRE CDO securitizations and cash held in the syndicated corporate loan CDOs.

The following table provides a reconciliation of cash, cash equivalents and restricted cash in the consolidated balance sheets to the total amount shown in the consolidated statements of cash flows (dollars in thousands):

	As of March 31, 2018	March 31, 2017
Cash and cash equivalents	$61,500	$157,760
Restricted cash	546	4,871
Total cash, cash equivalents and restricted cash shown on the Company's consolidated statements of cash flows	$62,046	$162,631

Preferred Equity Investment

Preferred equity investments, which are subordinate to any loans but senior to common equity, depending on the investment's characteristics, may be accounted for as real estate, joint ventures or as mortgage loans. The Company's preferred equity investment is accounted for as a CRE loan held for investment and is carried at cost, net of unamortized loan fees and origination costs and is included within CRE loans on the Company's consolidated balance sheets. The Company accretes or amortizes any discounts or premiums over the life of the related loan utilizing the effective interest method. Interest and fees are recognized as income subject to recoverability, which is substantiated by obtaining annual appraisals on the underlying property.

Discontinued Operations

The results of operations of a component or a group of components of the Company that either has been disposed of or is classified as held for sale is reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2018
(unaudited)

Income Taxes

The Company established a full valuation allowance against its net deferred tax assets of approximately $39.0 million (tax effected $10.4 million) at March 31, 2018 as the Company believes it is more likely than not that some or all of the deferred tax assets will not be realized. This assessment was based on the Company's cumulative historical losses of and uncertainties as to the amount of taxable income that would be generated in future years by the Company's TRSs.

Recent Accounting Standards

Accounting Standards Adopted in 2018

In May 2017, the Financial Accounting Standards Board ("FASB") issued guidance to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Modification accounting should be applied unless all of the following three criteria are met: (i) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (ii) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Adoption did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions, or disposals, of assets or businesses. The guidance provides a screen to determine when an integrated set of assets and activities (a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired, or disposed of, is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the guidance requires that: (i) to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output and (ii) remove the evaluation of whether a market participant could replace missing elements. The guidance also narrows the definition of an output to: the result of inputs and processes applied to those inputs that provide goods or services to customers, investment income (such as dividends or interest), or other revenues. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Adoption did not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued guidance to reduce the diversity in practice of the classification and presentation of changes in restricted cash on the statement of cash flows. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Adoption did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued guidance to reduce the diversity in practice around the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The guidance addresses the following eight specific cash flow issues: (i) debt prepayments or extinguishment costs; (ii) contingent consideration payments made after a business combination; (iii) proceeds from the settlement of insurance claims; (iv) proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); (v) settlement of zero-coupon debt instruments or other debt instruments with insignificant coupon rates; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions and (viii) separately identifiable cash flows and application of the predominance principle. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Adoption did not have a material impact on the Company's consolidated financial statements.

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In January 2016, the FASB issued guidance to address certain aspects of the recognition, measurement, presentation and disclosure of financial instruments in order to provide users of financial statements with more decision-useful information. The guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements, and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. It is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. Adoption did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance that establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. At issuance, the guidance was effective for the first interim or annual period beginning after December 15, 2016. In August 2015, the FASB issued additional guidance that delayed the previous effective date by one year, resulting in the original guidance 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. In 2016, the FASB issued multiple amendments to the accounting standard to provide further clarification. Exclusions from the scope of this guidance include revenues resulting from loans, investment securities available-for-sale, investment securities, trading, investments in unconsolidated entities and leases. The Company evaluated the applicability of this guidance, considering the scope exceptions, and determined that adoption did not have a material impact on its consolidated financial statements.

Accounting Standards to be Adopted in Future Periods

In February 2018, the FASB issued guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance.

In August 2017, the FASB issued guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities. Additionally, the guidance simplifies the application of the hedge accounting guidance via certain targeted improvements. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance.

In January 2017, the FASB issued guidance to add the Securities and Exchange Commission ("SEC") Staff Announcement "Disclosure of the Impact that Recently Issued Accounting Standards will have on the Financial Statements of a Registrant when such Standards are Adopted in a Future Period (in accordance with Staff Accounting Bulletin Topic 11.M)." The announcement applies to the May 2014 guidance on revenue recognition from contracts with customers, the February 2016 guidance on leases and the June 2016 guidance on how credit losses for most financial assets and certain other instruments that are measured at fair value through net income are determined. The announcement provides the SEC staff view that a registrant should evaluate certain recent accounting standards that have not yet been adopted to determine appropriate financial statement disclosures about the potential material effects of those recent accounting standards. If a registrant does not know or cannot reasonably estimate the impact that adoption of the recent accounting standards referenced in this announcement is expected to have on the financial statements, then the registrant should make a statement to that effect and consider the additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the recent accounting standards will have on the financial statements of the registrant when adopted. The Company completed its assessment under the new guidance on revenue recognition from contracts with customers, see "Account Standards Adopted in 2018." The Company is currently evaluating the impact of this guidance on leases and the measurement of credit losses on financial instruments and its impact on its consolidated financial statements.

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In June 2016, the FASB issued guidance which will change how credit losses for most financial assets and certain other instruments that are measured at fair value through net income are determined. The new guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. For available-for-sale debt securities, the guidance requires recording allowances rather than reducing the carrying amount, as it is currently under the other-than-temporary impairment model. It also simplifies the accounting model for credit-impaired debt securities and loans. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods within that reporting period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is in the process of evaluating the impact of this new guidance.

In February 2016, the FASB issued guidance requiring lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting will remain largely unchanged. The guidance will also require new qualitative and quantitative disclosures to help financial statement users better understand the timing, amount and uncertainty of cash flows arising from leases. This guidance will be effective for reporting periods beginning on or after December 15, 2018, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 presentation.

NOTE 3 - VARIABLE INTEREST ENTITIES

The Company has evaluated its securities, loans, investments in unconsolidated entities, liabilities to subsidiary trusts issuing preferred securities (consisting of unsecured junior subordinated notes), securitizations, guarantees and other financial contracts in order to determine if they are variable interests in VIEs. The Company regularly monitors these legal interests and contracts and, to the extent it has determined that it has a variable interest, analyzes the related entity for potential consolidation.

Consolidated VIEs (the Company is the primary beneficiary)

Based on management's analysis, the Company is the primary beneficiary of Apidos CDO I, Apidos CDO III, Apidos Cinco, Whitney CLO I, RCC 2015-CRE3, RCC 2015-CRE4 and RCC 2017-CRE5 at March 31, 2018 and December 31, 2017 (for each period, collectively, the "Consolidated VIEs").

The Consolidated VIEs were formed on behalf of the Company to invest in real estate-related securities, CMBS, syndicated corporate loans, corporate bonds and ABS and were financed by the issuance of debt securities. The Manager and C-III Asset Management LLC ("C3AM"), a subsidiary of C-III, manage the CRE-related entities, and CVC Credit Partners manages the commercial finance-related entities on behalf of the Company. By financing these assets with long-term borrowings through the issuance of debt securities, the Company seeks to generate attractive risk-adjusted equity returns and to match the term of its assets and liabilities. The primary beneficiary determination for each of these VIEs was made at each VIE's inception and is continually assessed.

Apidos CDO I and Apidos CDO III substantially liquidated their assets in October 2014 and June 2015, respectively. The securitizations are now entirely composed of restricted cash.

In November 2016, the Company substantially liquidated Apidos Cinco, a syndicated corporate loan CLO determined to be a VIE that is managed by CVC Credit Partners. As a result of the liquidation, all senior and mezzanine notes of the securitization were repaid, leaving only the Company's equity interest in the securitization outstanding as of December 31, 2016. As substantially all of the VIE's activities were being conducted on behalf of a single variable interest holder that was a related party of the decision maker, it was determined that the Company was the primary beneficiary of the transaction and, as such, should consolidate Apidos Cinco. At March 31, 2018, the Company consolidates two syndicated corporate loans held by Apidos Cinco, accounted for using the fair value option given the

short hold period.
Whitney CLO I was a securitization in which the Company acquired rights to manage the collateral assets held by the entity in February 2011. Following liquidation in September 2013, Whitney CLO I is now composed of restricted cash.
For a discussion of the Company's consolidated securitizations see Note 1, and for a discussion of the debt issued through the securitizations see Note 10.

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For consolidated CLOs in which the Company does not own 100% of the subordinated notes, the Company imputes an interest rate using expected cash flows over the life of each CLO and records the third party's share of the cash flows as interest expense on the consolidated statements of operations.

The Company has exposure to losses on its securitizations to the extent of its investments in the subordinated debt and preferred equity of each securitization. The Company is entitled to receive payments of principal and interest on the debt securities it holds and, to the extent revenues exceed debt service requirements and other expenses of the securitizations, distributions with respect to its preferred equity interests. As a result of consolidation, the debt and equity interests the Company holds in these securitizations have been eliminated, and the Company's consolidated balance sheets reflect the assets held, debt issued by the securitizations to third parties and any accrued payables to third parties. The Company's operating results and cash flows include the gross amounts related to the securitizations' assets and liabilities as opposed to the Company's net economic interests in the securitizations. Assets and liabilities related to the securitizations are disclosed, in the aggregate, on the Company's consolidated balance sheets.

The creditors of the Company's seven Consolidated VIEs have no recourse to the general credit of the Company, nor to each other. During the three months ended March 31, 2018, the Company provided no financial support to any of its VIEs nor does it have any requirement to do so, although it may choose to do so in the future to maximize future cash flows on such investments by the Company. There are no explicit arrangements that obligate the Company to provide financial support to any of its Consolidated VIEs.

The following table shows the classification and carrying values of assets and liabilities of the Company's Consolidated VIEs at March 31, 2018 (in thousands):

	CRE Securitizations	Other	Total
ASSETS			
Restricted cash	$ 2	$ 511	$ 513
Accrued interest receivable	2,728	—	2,728
CRE loans, pledged as collateral	571,640	—	571,640
Principal paydowns receivable	—	20	20
Other assets	188	—	188
Total assets (1)	$ 574,558	$ 531	$ 575,089
LIABILITIES			
Borrowings	$ 298,970	$ —	$ 298,970
Accrued interest payable	412	—	412
Accounts payable and other liabilities	65	—	65
Total liabilities	$ 299,447	$ —	$ 299,447

(1) Assets of each of the Consolidated VIEs may only be used to settle the obligations of each respective VIE.

Unconsolidated VIEs (the Company is not the primary beneficiary, but has a variable interest)

Based on management's analysis, the Company is not the primary beneficiary of the VIEs discussed below since it does not have both (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. Accordingly, the following VIEs are not consolidated in the Company's financial statements at March 31, 2018. The Company's maximum exposure to risk for each of these unconsolidated VIEs is set forth in the "Maximum Exposure to Loss" column in the table below.

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Unsecured Junior Subordinated Debentures
The Company has a 100% interest in the common shares of Resource Capital Trust I ("RCT I") and RCC Trust II ("RCT II"), respectively, with a value of $1.5 million in the aggregate, or 3% of each trust, at March 31, 2018. RCT I and RCT II were formed for the purposes of providing debt financing to the Company. The Company completed a qualitative analysis to determine whether or not it is the primary beneficiary of each of the trusts and determined that it was not the primary beneficiary of either trust because it does not have the power to direct the activities most significant to the trusts, which include the collection of principal and interest and protection of collateral through servicing rights. Accordingly, neither trust is consolidated into the Company's consolidated financial statements.
The Company records its investments in RCT I and RCT II's common shares of $774,000 each as investments in unconsolidated entities using the cost method, recording dividend income when declared by RCT I and RCT II. The trusts each hold subordinated debentures for which the Company is the obligor in the amount of $25.8 million for each of RCT I and RCT II. The debentures were funded by the issuance of trust preferred securities of RCT I and RCT II. The Company will continuously reassess whether it is deemed to be the primary beneficiary of the trusts.
RCM Global, LLC
In July 2014, the Company, together with Resource America, Inc., a wholly-owned subsidiary of C-III, ("Resource America") and certain Resource America employees, acquired through RCM Global a portfolio of available-for-sale securities for $23.5 million. The portfolio is managed by Resource America. The Company contributed $15.0 million for a 63.8% membership interest. Revenues and expenses of RCM Global are allocated to each member in accordance with their membership interest. In March and June 2015, the Company requested and received an in-kind distribution in certain securities held by RCM Global resulting in a reduction of its ownership interest. RCM Global was determined to be a VIE based on the majority equity interest holders' inability to direct the activities that are most significant to the entity. In January 2016, the Company adopted the amendments to the consolidation guidance. Upon adoption, the Company reevaluated its variable interest in RCM Global and determined it would no longer be the primary beneficiary of RCM Global, as its investment in the limited liability company did not provide the Company with a controlling financial interest. As a result of its evaluation, the Company deconsolidated its investment in RCM Global. In January 2016, the Company began accounting for its investment in RCM Global as an equity method investment in investments in unconsolidated entities on its consolidated financial statements. At March 31, 2018, the Company held a 63.8% interest in RCM Global, and the remainder was owned by subsidiaries and other parties associated with Resource America. The Company held a $217,000 investment at March 31, 2018.
Pelium Capital
In September 2014, the Company contributed $17.5 million to Pelium Capital for an initial ownership interest of 80.4%, and subsequently funded its final commitment of $2.5 million in February 2015. Pelium Capital is a specialized credit opportunity fund managed by an indirect wholly-owned subsidiary of C-III. The Company receives 10% of the carried interest in the partnership. Resource America contributed cash of $2.8 million to the formation of Pelium Capital. In December 2015, Pelium Capital was accounted for as a consolidated voting interest subsidiary. In January 2016, the Company adopted the amendments to the consolidation guidance. Upon adoption, the Company reevaluated its interest in Pelium Capital and determined that although it now possessed a variable interest in Pelium Capital, it would not be the primary beneficiary of Pelium Capital, as its investment in the limited partnership does not provide the Company with a controlling financial interest. As a result of its reevaluation, the Company deconsolidated its investment in Pelium Capital in January 2016, and accounted for its investment as an equity method investment in investments in unconsolidated entities on its consolidated financial statements. At March 31, 2018, the Company held an 80.2% interest in Pelium Capital, with a carrying value of $4.7 million.
Wells Fargo Commercial Mortgage Trust 2017-C40

In October 2017, the Company purchased 95% of the Class E, F, G, H and J certificates of Wells Fargo Commercial Mortgage Trust 2017-C40 ("C40"), a B-piece investment in a Wells Fargo Commercial Mortgage Securities, Inc. a private-label $705.4 million securitization. C3AM, a related party that is not under common control, is the special servicer of C40. The Company determined that although its investment in C40 represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounted for its various investments in C40 as investment securities available-for-sale on its consolidated financial statements.

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Prospect Hackensack JV LLC

In March 2018, the Company invested $19.2 million in the preferred equity of Prospect Hackensack JV LLC ("Prospect Hackensack"), a joint venture between the Company and an unrelated third party ("Managing Member"). Prospect Hackensack was formed for the purpose of acquiring and operating a multifamily CRE property. The Managing Member will manage the daily operations of the property. The Company determined that although its investment in Prospect Hackensack represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounted for its investment in Prospect Hackensack's preferred equity as a CRE loan on its consolidated balance sheets.

The following table shows the classification, carrying value and maximum exposure to loss with respect to the Company's unconsolidated VIEs at March 31, 2018 (in thousands):

	Unsecured Junior Subordinated Debentures	RCM Global LLC	Pelium Capital	C40	Prospect Hackensack	Total	Maximum Exposure to Loss
ASSETS							
Accrued interest receivable	$ —	$ —	$—	$—	$ 18	$18	$ —
CRE loans	—	—	—	—	19,008	19,008	$ 19,008
Investment securities available-for-sale [1]	—	—	—	20,855	—	20,855	$ 20,763
Investments in unconsolidated entities	1,548	217	4,674	—	—	6,439	$ 6,439
Total assets	1,548	217	4,674	20,855	19,026	46,320	
LIABILITIES							
Borrowings	51,548	—	—	—	—	51,548	N/A
Total liabilities	51,548	—	—	—	—	51,548	N/A
Net asset (liability)	$ (50,000)	$ 217	$4,674	$20,855	$ 19,026	$(5,228)	N/A

(1) The Company's investment in C40 is carried at fair value and its maximum exposure to loss is the amortized cost of the investment.

At March 31, 2018, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to any of its unconsolidated VIEs.

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes the Company's supplemental disclosure of cash flow information (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
Non-cash continuing financing activities include the following:		
Distributions on common stock accrued but not paid	$1,584	$1,568
Distribution on preferred stock accrued but not paid	$1,724	$4,009

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NOTE 5 - LOANS
The following is a summary of the Company's loans (dollars in thousands, except amounts in footnotes):

Description	Quantity	Principal	Unamortized (Discount) Premium, net (1)	Amortized Cost	Allowance for Loan Losses	Carrying Value (2)	Contracted Interest Rates (3)	Maturity Dates (4)(5)
At March 31, 2018:								
CRE loans held for investment:								
Whole loans (6)	75	$1,369,753	$ (7,233)	$1,362,520	$ (4,529)	$1,357,991	1M LIBOR plus 3.50% to 1M LIBOR plus 6.25% (Floating) and 8.00% (Fixed)	April 2018 to April 2021
Preferred equity investment (see Note 3) (7)(8)	1	19,200	(192)	19,008	—	19,008	11.50%	April 2025
Total CRE loans held for investment		1,388,953	(7,425)	1,381,528	(4,529)	1,376,999		
Total loans		$1,388,953	$ (7,425)	$1,381,528	$ (4,529)	$1,376,999		
At December 31, 2017:								
CRE loans held for investment:								
Whole loans (6)	70	$1,297,164	$ (7,014)	$1,290,150	$ (5,328)	$1,284,822	1M LIBOR plus 3.60% to 1M LIBOR plus 6.25%	February 2018 to January 2021
Total CRE loans held for investment		1,297,164	(7,014)	1,290,150	(5,328)	1,284,822		
Syndicated corporate loans (9)	2	13	—	13	—	13	N/A	N/A
Total loans held for sale		13	—	13	—	13		

Total loans	$1,297,177	$(7,014)	$1,290,163	$(5,328)	$1,284,835

(1) Amounts include unamortized loan origination fees of $7.1 million and $6.7 million and deferred amendment fees of $368,000 and $268,000 being amortized over the life of the loans at March 31, 2018 and December 31, 2017, respectively.

(2) Substantially all loans are pledged as collateral under various borrowings at March 31, 2018 and December 31, 2017.

(3) LIBOR refers to the London Interbank Offered Rate.

(4) Maturity dates exclude contracted extension options, subject to the satisfaction of certain terms, that may be available to the borrowers.

(5) Maturity dates exclude one CRE whole loan, with an amortized cost of $7.0 million, in default at March 31, 2018 and December 31, 2017.

(6) CRE whole loans had $86.2 million and $84.1 million in unfunded loan commitments at March 31, 2018 and December 31, 2017, respectively. These unfunded loan commitments are advanced as the borrowers formally request additional funding, as permitted under the loan agreement, and any necessary approvals have been obtained.

(7) The interest rate on the Company's preferred equity investment pays currently at 8.00%. The remaining interest is deferred until maturity.

(8) Beginning in April 2023, the Company has the right to unilaterally force the sale of the underlying property.

(9) All syndicated corporate loans are second lien loans and are accounted for under the fair value option.

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The following is a summary of the contractual maturities, assuming full exercise of the extension options available to the borrowers, of the Company's CRE loans held for investment, at amortized cost (in thousands, except amounts in footnotes):

Description	2018	2019	2020 and Thereafter	Total
At March 31, 2018:				
Whole loans [(1)]	$ —	$142,818	$1,212,702	$1,355,520
Preferred equity investment	—	—	19,008	19,008
Total CRE loans[(1)]	$ —	$142,818	$1,231,710	$1,374,528

Description	2018	2019	2020 and Thereafter	Total
At December 31, 2017:				
Whole loans [(1)]	$ —	$148,622	$1,134,528	$1,283,150

(1) Excludes one CRE whole loan, with an amortized cost of $7.0 million, in default at March 31, 2018 and December 31, 2017.

At March 31, 2018, approximately 28.3%, 24.5% and 12.7% of the Company's CRE loan portfolio was concentrated in the Southwest, Pacific and Mountain regions, respectively, based on carrying value, as defined by the National Council of Real Estate Investment Fiduciaries ("NCREIF"). At December 31, 2017, approximately 28.0%, 24.3%, and 12.5% of the Company's CRE loan portfolio was concentrated in the Southwest, Pacific and Mountain regions, respectively, based on carrying value.

Principal Paydowns Receivable

Principal paydowns receivable represent loan principal payments that have been received by the Company's servicers and trustees but have not been remitted to the Company. At March 31, 2018, the Company had $20,000 of loan principal paydowns receivable, all of which was received in cash by the Company in April 2018. At December 31, 2017, the Company had $75.9 million of loan principal paydowns receivable, all of which was received in cash by the Company in January 2018.

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NOTE 6 - FINANCING RECEIVABLES
The following tables show the activity in the allowance for loan and lease losses for the three months ended March 31, 2018 and year ended December 31, 2017 and the allowance for loan and lease losses and recorded investments in loans and leases at March 31, 2018 and December 31, 2017 (in thousands):

	Three Months Ended March 31, 2018			Year Ended December 31, 2017			
	Commercial Real Estate Loans	Direct Financing Leases	Total	Commercial Real Estate Loans	Syndicated Corporate Loans	Direct Financing Leases	Total
Allowance for loan and lease losses:							
Allowance for loan and lease losses at beginning of period	$5,328	$ 735	$6,063	$3,829	$ —	$ 465	$4,294
Provision for (recovery of) loan and lease losses, net	(799)	—	(799)	1,499	3	270	1,772
Loans charged-off	—	—	—	—	(3)	—	(3)
Allowance for loan and lease losses at end of period	$4,529	$ 735	$5,264	$5,328	$ —	$ 735	$6,063

	March 31, 2018			December 31, 2017			
	Commercial Real Estate Loans	Direct Financing Leases	Total	Commercial Real Estate Loans	Syndicated Corporate Loans	Direct Financing Leases	Total
Allowance for loan and lease losses ending balance:							
Individually evaluated for impairment	$2,500	$ —	$2,500	$2,500	$ —	$ 735	$3,235
Collectively evaluated for impairment	$2,029	$ 735	$2,764	$2,828	$ —	$ —	$2,828
Loans acquired with deteriorated credit quality	$—	$ —	$—	$—	$ —	$ —	$—
Loans and Leases:							
Amortized cost ending balance:							
Individually evaluated for impairment	$26,008	$ —	$26,008	$7,000	$ —	$ 886	$7,886
Collectively evaluated for impairment	$1,355,520	$ 824	$1,356,344	$1,283,150	$ —	$ —	$1,283,150
Loans acquired with deteriorated credit quality	$—	$ —	$—	$—	$ —	$ —	$—

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Credit quality indicators
Commercial Real Estate Loans
CRE loans are collateralized by a diversified mix of real estate properties and are assessed for credit quality based on the collective evaluation of several factors, including but not limited to: collateral performance relative to underwritten plan, time since origination, current implied and/or reunderwritten LTV, loan structure and exit plan. Depending on the loan's performance against these various factors, loans are rated on a scale from 1 to 5, with loans rated 1 representing loans with the highest credit quality and loans rated 5 representing loans with lowest credit quality. The factors evaluated provide general criteria to monitor credit migration in the Company's loan portfolio, as such, a loan's rating may improve or worsen, depending on new information received.
The criteria set forth below should be used as general guidelines, and, therefore, not every loan will have all of the characteristics described in each category below. Loans that are performing according to their underwritten plans generally will not require an allowance for loan loss.

Risk Rating	Risk Characteristics
1	• Property performance has surpassed underwritten expectations. • Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix.
2	• Property performance is consistent with underwritten expectations and covenants and performance criteria are being met or exceeded. • Occupancy is stabilized, near stabilized or is on track with underwriting.
3	• Property performance lags behind underwritten expectations. • Occupancy is not stabilized and the property has some tenancy rollover.
4	• Property performance significantly lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. • Occupancy is not stabilized and the property has a large amount of tenancy rollover.
5	• Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and is in default. Expected sale proceeds would not be sufficient to pay off the loan at maturity. • The property has material vacancy and significant rollover of remaining tenants. • An updated appraisal is required.

CRE loans are evaluated for any credit deterioration by debt asset management and certain finance personnel on at least a quarterly basis. Loans are first individually evaluated for impairment; and to the extent not deemed impaired, a general reserve is established.
The allowance for loan loss is computed as (i) 1.5% of the aggregate face values of loans rated as a 3, plus (ii) 5.0% of the aggregate face values of loans rated as a 4, plus (iii) specific allowances measured and determined on loans individually evaluated, which are loans rated as a 5. While the overall risk rating is generally not the sole factor used 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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Credit risk profiles of CRE loans at amortized cost were as follows (in thousands, except amounts in footnotes):

	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Held for Sale	Total
At March 31, 2018:							
Whole loans (1)	$52,010	$1,179,981	$118,688	$4,841	$7,000	$—	$1,362,520
Preferred equity investment (2)	—	19,008	—	—	—	—	19,008
Legacy CRE whole loans (3)(4)	—	—	—	—	—	63,882	63,882
	$52,010	$1,198,989	$118,688	$4,841	$7,000	$63,882	$1,445,410
At December 31, 2017:							
Whole loans (1)	$65,589	$1,040,883	$171,841	$4,837	$7,000	$—	$1,290,150
Legacy CRE whole loans (3)(4)	—	—	—	—	—	63,783	63,783
	$65,589	$1,040,883	$171,841	$4,837	$7,000	$63,783	$1,353,933

(1) Includes one CRE whole loan, with an amortized cost of $7.0 million, that was in default at March 31, 2018 and December 31, 2017.
(2) The Company's preferred equity investment is evaluated individually for impairment and excluded from the general reserve calculation.
(3) Legacy CRE whole loans are carried at the lower of cost or fair value.
(4) Includes three and two legacy CRE whole loans that were in default with total carrying values of $40.5 million and $22.5 million at March 31, 2018 and December 31, 2017, respectively.

At March 31, 2018 and December 31, 2017, the Company had one CRE whole loan designated as an impaired loan with a risk rating of 5 due to short term vacancy/tenant concerns and a past due maturity of February 2017. The loan is collateralized by a retail shopping center in the Southeast region, as defined by the NCREIF, and had an amortized cost of $7.0 million at March 31, 2018 and December 31, 2017. The Company obtained an appraisal of the collateral in 2016, indicating a fair value of $4.5 million, which it relied upon as a practical expedient for determining the value of the loan at March 31, 2018 and December 31, 2017. No additional provision was recorded on the loan for the three months ended March 31, 2018 and March 31, 2017. This loan was in default at March 31, 2018 and December 31, 2017.

At March 31, 2018, the Company had four legacy CRE whole loans and one mezzanine loan included in assets held for sale with total carrying values of $57.3 million, comprising total amortized cost bases of $63.9 million less a valuation allowance of $6.6 million.

At December 31, 2017, the Company had four legacy CRE whole loans and one mezzanine loan included in assets held for sale with total carrying values of $61.8 million, comprising total amortized cost bases of $63.8 million less a valuation allowance of $1.9 million.

The mezzanine loan had no fair value at March 31, 2018 and December 31, 2017.

The Company obtained updated appraisals for one legacy CRE whole loan held for sale collateralized by a hotel in the Pacific region, as defined by the NCREIF, in April 2018. For the remaining three legacy CRE whole loans held for sale, the Company continued to rely on its appraisals obtained in 2016, as a practical expedient, in determining fair value at March 31, 2018.

Two of the four legacy CRE whole loans required a specific reserve upon transfer to held for sale in 2016 and are comprised of the following:

- One CRE whole loan collateralized by an office property in the Mountain region, as defined by the NCREIF, with an initial par value of $17.7 million. Upon transfer to held for sale in 2016, this loan was written down to its estimated fair value of $11.0 million, which remains the carrying value at March 31, 2018 and December 31, 2017. No additional valuation adjustments were recognized for the three months ended March 31, 2018 and 2017. The loan matured in May 2017 and is currently in default;

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One CRE whole loan collateralized by a hotel in the Pacific region, as defined by the NCREIF, with an initial par value of $29.5 million. Upon transfer to held for sale in 2016, this loan was written down to its estimated fair value of $24.0 million. At March 31, 2018 and December 31, 2017, the loan had a carrying value of $18.0 million and $22.5 million, respectively. An additional fair value adjustment of $4.7 million, which included protective advances of $172,000, to reduce the carrying value was recognized during the three months ended March 31, 2018. This adjustment was recorded based on the receipt of updated appraisals in April 2018 and was recognized in fair value adjustments on financial assets held for sale in the Company's consolidated statements of operations. No valuation adjustments were recognized for the three months ended March 31, 2017. The loan has a maturity date in January 2019 and is currently in default.

The remaining two legacy CRE whole loans required no specific reserve upon transfer to held for sale in 2016. One loan is collateralized by a retail shopping center in the Pacific region, as defined by the NCREIF, and had a carrying value of $11.5 million at March 31, 2018 and December 31, 2017. The loan had a maturity date in December 2017 and is currently in technical default. The second loan is collateralized by a retail shopping center in the Pacific region, as defined by the NCREIF, and had a carrying value of $16.8 million at March 31, 2018 and December 31, 2017. The loan has a maturity date in January 2019. For these two loans, the Company determined that no additional valuation adjustments were necessary for the three months ended March 31, 2018 and 2017.

At March 31, 2018, 49.4%, 31.4% and 19.2% of the Company's legacy CRE whole loans were concentrated in retail, hotel and office, respectively, based on carrying value. Of these loans, 80.8% and 19.2% are within the Pacific and Mountain regions, respectively, as defined by NCREIF. At December 31, 2017, 45.8%, 36.4% and 17.8% of the Company's legacy CRE whole loans were concentrated in retail, hotel and office, respectively, based on carrying value. Of these loans, 82.2% and 17.8% are within the Pacific and Mountain regions, respectively.

Except as previously discussed, all of the Company's CRE loans and its preferred equity investment were current with respect to contractual principal and interest at March 31, 2018.

Direct Financing Leases

The Company recorded no provision for lease losses against the value of its direct financing leases during the three months ended March 31, 2018. The Company recorded a $139,000 provision for lease losses during the three months ended March 31, 2017. The Company held $89,000 and $151,000 of direct financing leases, net of reserves, at March 31, 2018 and December 31, 2017, respectively.

Loan Portfolios Aging Analysis

The following table presents the loan portfolio aging analysis as of the dates indicated at amortized cost (in thousands, except amounts in footnotes):

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable (1)	Total Loans > 90 Days and Accruing
At March 31, 2018:							
Whole loans (2)	$—	$ —	$7,000	$7,000	$1,355,520	$1,362,520	$ —
Preferred equity investment	—	—	—	—	19,008	19,008	—
Legacy CRE whole loans (3)	—	—	47,057	47,057	16,825	63,882	11,516
Total loans	$—	$ —	$54,057	$54,057	$1,391,353	$1,445,410	$ 11,516
At December 31, 2017:							
Whole loans (2)	$—	$ —	$7,000	$7,000	$1,283,150	$1,290,150	$ —

Legacy CRE whole loans [3]	11,516	—	11,000	22,516	41,267	63,783	—
Total loans	$11,516	$ —	$18,000	$29,516	$1,324,417	$1,353,933	$ —

(1) Excludes direct financing leases of $89,000 and $151,000, net of reserves, at March 31, 2018 and December 31, 2017, respectively.

(2) Includes one CRE whole loan, with an amortized cost of $7.0 million, that was in default at March 31, 2018 and December 31, 2017.

(3) Includes three and two legacy CRE whole loans that were in default with total carrying values of $40.5 million and $22.5 million at March 31, 2018 and December 31, 2017, respectively.

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Impaired Loans
The following tables show impaired loans as of the dates indicated (in thousands):

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
At March 31, 2018:					
Loans without a specific valuation allowance:					
Whole loans	$ —	$ —	$ —	$ —	$ —
Loans with a specific valuation allowance:					
Whole loans	$ 7,000	$ 7,000	$ (2,500)	$ 7,000	$ —
Total:					
Whole loans	$ 7,000	$ 7,000	$ (2,500)	$ 7,000	$ —
At December 31, 2017:					
Loans without a specific valuation allowance:					
Whole loans	$ —	$ —	$ —	$ —	$ —
Loans with a specific valuation allowance:					
Whole loans	$ 7,000	$ 7,000	$ (2,500)	$ 7,000	$ —
Total:					
Whole loans	$ 7,000	$ 7,000	$ (2,500)	$ 7,000	$ —

Troubled-Debt Restructurings ("TDR")
There were no TDRs for the three months ended March 31, 2018 and 2017.

NOTE 7 - INVESTMENT SECURITIES, TRADING
Structured notes are CLO debt securities collateralized by syndicated corporate loans. The following table summarizes the Company's structured notes classified as investment securities, trading and carried at fair value (in thousands, except number of securities):

	Number of Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
At March 31, 2018:					
Structured notes	2	$ 1,218	$ —	$ (1,054)	$ 164
At December 31, 2017:					
Structured notes	4	$ 2,891	$ —	$ (2,713)	$ 178

The Company sold two and one investment securities resulting in realized losses totaling $5,000 and a realized gain of $9,000, respectively, during the three months ended March 31, 2018 and 2017, respectively.

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NOTE 8 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The following table summarizes the Company's investment securities available-for-sale, including those pledged as collateral. ABS may include, but are not limited to, the Company's investments in securities backed by syndicated corporate loans and other loan obligations. Investment securities available-for-sale are carried at fair value (in thousands, except amounts in the footnote):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value [(1)]
At March 31, 2018:				
CMBS	$ 251,343	$ 1,443	$ (2,040)	$ 250,746
Total	$ 251,343	$ 1,443	$ (2,040)	$ 250,746
At December 31, 2017:				
CMBS	$ 210,806	$ 1,947	$ (1,174)	$ 211,579
ABS	259	—	(101)	158
Total	$ 211,065	$ 1,947	$ (1,275)	$ 211,737

(1) At March 31, 2018 and December 31, 2017, $227.7 million and $169.6 million, respectively, of investment securities available-for-sale were pledged as collateral under related financings.

The following table summarizes the estimated payoff dates of the Company's investment securities available-for-sale according to their estimated weighted average life classifications (in thousands, except percentages):

	March 31, 2018			December 31, 2017		
	Amortized Cost	Fair Value	Weighted Average Coupon	Amortized Cost	Fair Value	Weighted Average Coupon
Less than one year [(1)]	$ 22,642	$ 22,415	5.36%	$ 25,475	$ 25,275	5.55%
Greater than one year and less than five years	145,562	146,081	4.79%	126,273	127,104	4.65%
Greater than five years and less than ten years	83,139	82,250	3.55%	59,317	59,358	3.53%
Total	$ 251,343	$ 250,746	4.43%	$ 211,065	$ 211,737	4.45%

(1) The Company expects that the payoff dates of these CMBS and ABS will either be extended or that the securities will be paid off in full.

At March 31, 2018, the contractual maturities of the CMBS investment securities available-for-sale range from June 2022 to November 2059.

The following table summarizes the fair value, gross unrealized losses and number of securities aggregated by investment category and the length of time that individual investment securities available-for-sale have been in a continuous unrealized loss position during the periods specified (in thousands, except number of securities):

	Less than 12 Months			More than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
At March 31, 2018:									
CMBS	$ 92,454	$ (1,674)	20	$ 1,226	$ (366)	4	$ 93,680	$ (2,040)	24
Total temporarily impaired securities	$ 92,454	$ (1,674)	20	$ 1,226	$ (366)	4	$ 93,680	$ (2,040)	24

At December 31, 2017:									
CMBS	$49,016	$(888)	12	$1,308	$(286)	4	$50,324	$(1,174)	16
ABS	158	(101)	1	—	—	—	158	(101)	1
Total temporarily impaired securities	$49,174	$(989)	13	$1,308	$(286)	4	$50,482	$(1,275)	17

The unrealized losses in the above table are considered to be temporary impairments due to market factors and are not reflective of credit deterioration.

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The Company recognized no other-than-temporary impairments on its investment securities available-for-sale for the three months ended March 31, 2018 and 2017.

The following table summarizes the Company's sales of investment securities available-for-sale (in thousands, except positions sold and redeemed):

	For the Three Months Ended					
	Positions Sold	Positions Redeemed	Par Amount Sold/Redeemed	Amortized Cost	Realized Gain (Loss)	Proceeds
March 31, 2018:						
ABS	2	—	$ 411	$ 265	$ (217)	$ 48
Total	2	—	$ 411	$ 265	$ (217)	$ 48

There were no sales or redemptions during the three months ended March 31, 2017.

NOTE 9 - INVESTMENTS IN UNCONSOLIDATED ENTITIES

The following table summarizes the Company's investments in unconsolidated entities at March 31, 2018 and December 31, 2017 and equity in (losses) earnings of unconsolidated entities for the three months ended March 31, 2018 and 2017 (in thousands, except percentages and amounts in footnotes):

				Equity in (Losses) Earnings of Unconsolidated Entities	
	Ownership % at March 31, 2018	March 31, 2018	December 31, 2017	For the Three Months Ended March 31, 2018	For the Three Months Ended March 31, 2017
Pelium Capital Partners, L.P. (1)	80.2%	$ 4,674	$ 10,503	$ (305)	$ (158)
RCM Global, LLC	63.8%	217	—	13	(4)
Pearlmark Mezzanine Realty Partners IV, L.P. (2)	—%	—	—	—	358
Investment in LCC Preferred Stock (3)	—%	—	—	—	165
Subtotal		4,891	10,503	(292)	361
Investment in RCT I and II (4)	3.0%	1,548	1,548	(724)	(637)
Total		$ 6,439	$ 12,051	$ (1,016)	$ (276)

(1) During the three months ended March 31, 2018 and 2017, the Company received distributions of $5.6 million and $13.6 million, respectively, on its investment in Pelium Capital.

(2) The Company sold its investment in Pearlmark Mezz in May 2017.

(3) The Company's investment in LCC liquidated in July 2017 as a result of the sale of LCC.

(4) During the three months ended March 31, 2018 and 2017, distributions from the trusts are recorded in interest expense on the Company's consolidated statements of operations as the investments are accounted for under the cost method.

During the three months ended March 31, 2018, investments held by Pelium Capital and RCM Global were substantially liquidated.

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NOTE 10 - BORROWINGS

The Company historically has financed the acquisition of its investments, including investment securities and loans, through the use of secured and unsecured borrowings in the form of securitized notes, repurchase agreements, secured term facilities, warehouse facilities, convertible senior notes and trust preferred securities issuances. Certain information with respect to the Company's borrowings is summarized in the following table (in thousands, except percentages and amounts in footnotes):

	Principal Outstanding	Unamortized Issuance Costs and Discounts	Outstanding Borrowings	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity	Value of Collateral
At March 31, 2018:						
RCC 2015-CRE3 Senior Notes	$ 16,592	$ 165	$ 16,427	5.79%	14.0 years	$ 80,632
RCC 2015-CRE4 Senior Notes	47,663	368	47,295	4.66%	14.4 years	136,846
RCC 2017-CRE5 Senior Notes	238,454	3,205	235,249	2.82%	16.3 years	357,234
Unsecured Junior Subordinated Debentures	51,548	—	51,548	5.99%	18.4 years	—
4.50% Convertible Senior Notes	143,750	15,878	127,872	4.50%	4.4 years	—
6.00% Convertible Senior Notes	70,453	677	69,776	6.00%	245 days	—
8.00% Convertible Senior Notes	21,182	409	20,773	8.00%	1.8 years	—
CRE - Term Repurchase Facilities (1)	430,987	602	430,385	4.09%	132 days	622,204
CMBS - Term Repurchase Facility (2)	13,532	—	13,532	3.99%	55 days	20,372
Trust Certificates - Term Repurchase Facilities (3)	74,125	494	73,631	6.29%	1.8 years	207,901
CMBS - Short Term Repurchase Agreements (4)	135,898	—	135,898	3.13%	25 days	207,283
Total	$ 1,244,184	$ 21,798	$ 1,222,386	4.22%	5.4 years	$ 1,632,472

	Principal Outstanding	Unamortized Issuance Costs and Discounts	Outstanding Borrowings	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity	Value of Collateral
At December 31, 2017:						
RCC 2015-CRE3 Senior Notes	$ 85,788	$ 396	$ 85,392	4.50%	14.2 years	$ 149,828
RCC 2015-CRE4 Senior Notes	90,883	407	90,476	3.65%	14.6 years	180,066

RCC 2017-CRE5 Senior Notes	244,280	3,493	240,787	2.51%	16.6 years	369,534
Unsecured Junior Subordinated Debentures	51,548	—	51,548	5.49%	18.7 years	—
4.50% Convertible Senior Notes	143,750	16,626	127,124	4.50%	4.6 years	—
6.00% Convertible Senior Notes	70,453	928	69,525	6.00%	335 days	—
8.00% Convertible Senior Notes	21,182	466	20,716	8.00%	2.0 years	—
CRE - Term Repurchase Facilities (1)	292,511	1,013	291,498	3.82%	222 days	432,125
CMBS - Term Repurchase Facilities (2)	27,628	—	27,628	3.05%	121 days	38,060
Trust Certificates - Term Repurchase Facilities (3)	76,714	570	76,144	5.97%	2.1 years	214,375
CMBS - Short Term Repurchase Agreements (4)	82,647	—	82,647	2.79%	14 days	131,522
Total	$ 1,187,384	$ 23,899	$ 1,163,485	4.00%	7.3 years	$ 1,515,510

(1) Principal outstanding includes accrued interest payable of $689,000 and $534,000 at March 31, 2018 and December 31, 2017, respectively.

(2) Principal outstanding includes accrued interest payable of $35,000 and $46,000 at March 31, 2018 and December 31, 2017, respectively.

(3) Principal outstanding includes accrued interest payable of $194,000 and $203,000 at March 31, 2018 and December 31, 2017, respectively.

(4) Principal outstanding includes accrued interest payable of $470,000 and $279,000 at March 31, 2018 and December 31, 2017, respectively.

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Securitizations

The following table sets forth certain information with respect to the Company's consolidated securitizations at March 31, 2018 (in thousands):

Securitization	Closing Date	Maturity Date	End of Designated Principal Reinvestment Period (1)	Total Note Paydowns Received from Closing Date through March 31, 2018
RCC 2015-CRE3	February 2015	March 2032	February 2017	$ 265,535
RCC 2015-CRE4	August 2015	August 2032	September 2017	$ 176,072
RCC 2017-CRE5	July 2017	July 2034	July 2020	$ 12,995

(1) The designated principal reinvestment period is the period where principal payments received by each respective securitization may be designated by the Company to purchase funding participations of existing collateral originally underwritten at the close of each securitization, which was funded outside of the deal structure.

The investments held by the Company's securitizations collateralize the securitizations' borrowings and, as a result, are not available to the Company, its creditors, or stockholders. All senior notes of the securitizations held by the Company at March 31, 2018 and December 31, 2017 are eliminated in consolidation.

Repurchase and Credit Facilities

Borrowings under the Company's repurchase agreements are guaranteed by the Company or one of its subsidiaries. The following table sets forth certain information with respect to the Company's repurchase agreements (in thousands, except percentages and amounts in footnotes):

	March 31, 2018				December 31, 2017			
	Outstanding Borrowings (1)	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate	Outstanding Borrowings (1)	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate
CRE - Term Repurchase Facilities								
Wells Fargo Bank, N.A. (2)	$258,160	$376,843	23	3.92%	$179,347	$268,003	19	3.68%
Morgan Stanley Bank, N.A. (3)	172,225	245,361	12	4.36%	112,151	164,122	9	4.05%
CMBS - Term Repurchase Facilities								
Wells Fargo Bank, N.A.	—	—	—	—%	12,272	14,984	8	2.45%
Deutsche Bank AG	13,532	20,372	14	3.99%	15,356	23,076	14	3.53%

Trust Certificates - Term Repurchase Facilities								
RSO Repo SPE Trust 2015 (4)	26,583	89,121	2	7.29%	26,548	89,121	2	6.98%
RSO Repo SPE Trust 2017 (5)	47,048	118,780	2	5.74%	49,596	125,254	2	5.43%
CMBS - Short-Term Repurchase Agreements								
RBC Capital Markets, LLC	125,369	173,574	15	3.11%	72,131	97,745	6	2.77%
JP Morgan Securities LLC	10,529	33,709	2	3.41%	10,516	33,777	2	2.93%
Total	$653,446	$1,057,760			$477,917	$816,082		

(1) Outstanding borrowings includes accrued interest payable.

(2) Includes $313,000 and $565,000 of deferred debt issuance costs at March 31, 2018 and December 31, 2017, respectively.

(3) Includes $289,000 and $448,000 of deferred debt issuance costs at March 31, 2018 and December 31, 2017, respectively.

(4) Includes $96,000 and $133,000 of deferred debt issuance costs at March 31, 2018 and December 31, 2017, respectively.

(5) Includes $292,000 and $320,000 of deferred debt issuance costs at March 31, 2018 and December 31, 2017, respectively.

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The following table shows information about the amount at risk under the repurchase facilities at March 31, 2018 (in thousands, except percentages):

	Amount at Risk (1)	Weighted Average Remaining Maturity	Weighted Average Interest Rate
At March 31, 2018:			
CRE - Term Repurchase Facilities			
Wells Fargo Bank, N.A.	$119,979	112 days	3.92%
Morgan Stanley Bank, N.A.	$73,843	163 days	4.36%
CMBS - Term Repurchase Facility			
Deutsche Bank AG	$6,899	55 days	3.99%
Trust Certificates Term Repurchase Facilities			
RSO Repo SPE Trust 2015	$62,515	234 days	7.29%
RSO Repo SPE Trust 2017	$71,438	2.5 years	5.74%
CMBS - Short-Term Repurchase Agreements			
RBC Capital Markets, LLC	$48,635	22 days	3.11%
JP Morgan Securities LLC	$23,264	60 days	3.41%

(1) Equal to the total of the estimated fair value of securities or loans sold and accrued interest receivable, minus the total of the repurchase agreement liabilities and accrued interest payable.

The Company is in compliance with all covenants in each of the respective agreements at March 31, 2018.

CRE - Term Repurchase Facilities

In February 2012, the Company's wholly-owned subsidiary entered into a master repurchase and securities agreement (the "2012 Facility") with Wells Fargo Bank, N.A. ("Wells Fargo") to finance the origination of CRE loans. In March 2018, the Company entered into the seventh amendment to the 2012 Facility, which amended certain defined terms and the required capital, total indebtedness to equity and EBITDA to interest expense ratio covenants.

In September 2015, the Company entered into a guaranty agreement (the "Morgan Stanley Guaranty") associated with a master repurchase and securities agreement with Morgan Stanley Bank, N.A. In March 2018, the Company entered into the second amendment to the Morgan Stanley Guaranty, which amended certain defined terms and the required capital and EBITDA to interest expense ratio covenants.

In April 2018, the Company's indirect wholly-owned subsidiary entered into a master repurchase agreement (the "Barclays Facility") with Barclays Bank PLC ("Barclays") to finance the Company's core CRE lending business. The Barclays Facility has a maximum facility amount of $250.0 million, charges interest of one-month LIBOR plus a spread between 2.00% and 2.50% and matures in April 2021, subject to certain one-year extension options in accordance with the facility's terms. The Company paid a structuring fee as well as other reasonable closing costs. The Barclays Facility contains margin call provisions that provide Barclays with certain rights when there has been a decline in the value of purchased assets. Under these circumstances, Barclays may require the Company to transfer cash in an amount necessary to eliminate such margin deficit or repurchase the asset that resulted in the margin call. In connection with the Barclays Facility, the Company fully guaranteed all payments and performance under the Barclays Facility pursuant to a guaranty agreement (the "Barclays Guaranty"). The Barclays Guaranty includes certain financial covenants required of the Company, including required liquidity, required capital, ratios of total indebtedness to equity and EBITDA requirements. Also, RCC Real Estate, the direct owner of the wholly-owned subsidiary, executed a pledge and security agreement with Barclays whereby it agreed to pledge and grant to Barclays a continuing security interest in any and all of its right, title and interest in and to the wholly-owned subsidiary, including all distributions, proceeds, payments, income and profits from its interests in the wholly-owned subsidiary.

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The Barclays Facility contains events of default, subject to certain materiality thresholds and grace periods, customary for this type of financing arrangement. The remedies for such events of default are also customary for this type of transaction and include the acceleration of the principal amount outstanding under the Barclay Facility and the liquidation by Barclays of purchased assets then subject to the Barclays Facility.

CMBS - Term Repurchase Facilities

In February 2011, two of the Company's wholly-owned subsidiaries entered into a master repurchase and securities agreement (the "2011 Facility") with Wells Fargo to finance the acquisition of CMBS. In March 2018, the Company paid off the 2011 Facility and allowed it to mature on March 31, 2018.

Contractual maturity dates of the Company's borrowings by category and year are presented in the table below (in thousands):

	Total	2018	2019	2020	2021	2022 and Thereafter
At March 31, 2018:						
CRE securitizations	$298,971	$—	$ —	$—	$ —	$298,971
Unsecured junior subordinated debentures	51,548	—	—	—	—	51,548
4.50% Convertible Senior Notes	127,872	—	—	—	—	127,872
6.00% Convertible Senior Notes	69,776	69,776	—	—	—	—
8.00% Convertible Senior Notes	20,773	—	—	20,773	—	—
Repurchase and credit facilities	653,446	606,398	—	47,048	—	—
Total	$1,222,386	$676,174	$ —	$67,821	$ —	$478,391

NOTE 11 - SHARE ISSUANCE AND REPURCHASE

In January 2018, the Company redeemed all shares of its 8.50% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") and 930,983 shares of its 8.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") at redemption prices of $25.00 per share plus accrued but unpaid distributions. The total redemption cost of $50.0 million was reported as a preferred stock redemption liability on the consolidated balance sheet at December 31, 2017.

In March 2018, the Company redeemed all remaining shares of its Series B Preferred Stock at a redemption price of $25.00 per share, or $115.3 million, plus accrued but unpaid distributions, resulting in a preferred stock redemption charge of $7.5 million on the consolidated statement of operations for the three months ended March 31, 2018.

On or after July 30, 2024, the Company may, at its option, redeem its 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"), in whole or in part, at any time and from time to time, for cash at $25.00 per share, plus accrued and unpaid dividends, if any, to the redemption date. Effective July 30, 2024 and thereafter, the Company will pay cumulative distributions on the Series C Preferred Stock at a floating rate equal to three-month LIBOR plus 5.927% per annum based on the $25.00 liquidation preference, provided that such floating rate shall not be less than the initial rate of 8.625% at any date of determination.

Under a share repurchase plan authorized by the Board in August 2015, the Company was authorized to repurchase up to $50.0 million of its outstanding equity and debt securities. In March 2016, the Company's Board approved a new securities repurchase program for up to $50.0 million of its outstanding securities, which replaced the August 2015 repurchase plan. During the three months ended March 31, 2018 and 2017, the Company did not repurchase any shares of its common or preferred stock through this program. At March 31, 2018, $44.9 million remains available under this repurchase plan.

At March 31, 2018, the Company had 4.8 million shares of Series C Preferred Stock outstanding, with a weighted average issuance price, excluding offering costs, of $25.00.

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NOTE 12 - SHARE-BASED COMPENSATION

The following table summarizes the Company's restricted common stock transactions:

	Non-Employee Directors	Non-Employees [(1)]	Former Employees	Total
Unvested shares at January 1, 2018	34,565	419,862	28,646	483,073
Issued	20,029	209,355	—	229,384
Vested	(22,692)	(195,112)	(27,120)	(244,924)
Forfeited	—	(1,725)	—	(1,725)
Unvested shares at March 31, 2018	31,902	432,380	1,526	465,808

(1) Non-employees are employees of C-III or Resource America.

The Company is required to value any unvested shares of restricted common stock granted to non-employees at the current market price. The fair values at grant date of the shares of restricted common stock granted to non-employees during the three months ended March 31, 2018 and 2017 were $2.0 million and $2.7 million, respectively. The fair values at grant date of shares of restricted common stock issued to the Company's eight non-employee directors during the three months ended March 31, 2018 and 2017 were $185,000 and $220,000, respectively.

At March 31, 2018, the total unrecognized restricted common stock expense for non-employees was $2.5 million, with a weighted average amortization period remaining of 2.4 years. At December 31, 2017, the total unrecognized restricted common stock expense for non-employees was $1.4 million, with a weighted average amortization period remaining of 2.0 years.

The following table summarizes restricted common stock grants during the three months ended March 31, 2018:

Date	Shares	Vesting per Year	Vesting Date(s)
January 18, 2018	209,355	33.3%	January 18, 2019, January 18, 2020 and January 18, 2021
February 1, 2018	3,727	100.0%	February 1, 2019
March 8, 2018	16,302	100.0%	March 8, 2019

The following table summarizes the status of the Company's vested stock options at March 31, 2018:

Vested Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Vested at January 1, 2018	10,000	$ 25.60		
Vested	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Vested at March 31, 2018	10,000	$ 25.60	3.13	$ —

There were no options granted during the three months ended March 31, 2018 or 2017. The outstanding stock options have contractual terms of ten years and will expire in 2021.

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The components of equity compensation expense for the periods presented are as follows (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
Restricted shares granted to non-employees (1)	$895	$715
Restricted shares granted to non-employee directors	72	73
Total equity compensation expense (2)	$967	$788

(1) Non-employees are employees of C-III or Resource America.
(2) Amounts exclude equity compensation expense for employees of PCM, which is included in net income (loss) from discontinued operations, net of tax on the consolidated statement of operations during the three months ended March 31, 2017.

Under the Company's Third Amended and Restated Management Agreement ("Management Agreement"), incentive compensation is paid quarterly. Up to 75% of the incentive compensation is paid in cash and at least 25% is paid in the form of an award of common stock, recorded in management fee on the consolidated statements of operations. The Manager received no incentive management fee for the three months ended March 31, 2018 or 2017.

All equity awards, apart from incentive compensation under the Management Agreement, are discretionary in nature and subject to approval by the compensation committee of the Company's Board.

NOTE 13 - EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted (losses) earnings per share for the periods presented as follows (in thousands, except share and per share amounts):

	For the Three Months Ended March 31,	
	2018	2017
Net (loss) income from continuing operations	$(137)	$ 9,174
Net income allocated to preferred shares	(5,210)	(6,014)
Consideration paid in excess of carrying value of preferred shares	(7,482)	—
Net loss allocable to non-controlling interest, net of taxes	—	101
Net (loss) income from continuing operations allocable to common shares	(12,829)	3,261
Net income (loss) from discontinued operations, net of tax	247	(561)
Net (loss) income allocable to common shares	$(12,582)	$ 2,700
Net (loss) income per common share - basic:		
Weighted average number of shares outstanding	31,111,315	30,752,006
Continuing operations	$(0.41)	$ 0.11
Discontinued operations	0.01	(0.02)
Net (loss) income per common share - basic	$(0.40)	$ 0.09
Net (loss) income per common share - diluted:		
Weighted average number of shares outstanding	31,111,315	30,752,006
Additional shares due to assumed conversion of dilutive instruments	—	162,142

Adjusted weighted-average number of common shares outstanding	31,111,315	30,914,148
Continuing operations	$ (0.41)	$ 0.11
Discontinued operations	0.01	(0.02)
Net (loss) income per common share - diluted	$ (0.40)	$ 0.09
Potentially dilutive shares excluded from calculation due to anti-dilutive effect (1)	14,885,289	9,002,864

(1) Potentially dilutive shares issuable in connection with the potential conversion of the Company's 4.50% convertible senior notes due 2022 ("4.50% Convertible Senior Notes"), 6.00% convertible senior notes due 2018 ("6.00% Convertible Senior Notes") and 8.00% convertible senior notes due 2020 ("8.00% Convertible Senior Notes") (see Note 10) were not included in the calculation of diluted net income (loss) per share because the effect would be anti-dilutive.

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NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in each component of accumulated other comprehensive income for the three months ended March 31, 2018 (in thousands):

	Net Unrealized Gain on Derivatives	Net Unrealized Gain (Loss) on Investment Securities Available-for-Sale	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2018	$ 602	$ 695	$ 1,297
Other comprehensive income (loss) before reclassifications (net of taxes of $27)	1,149	(1,509)	(360)
Amounts reclassified from accumulated other comprehensive income [1]	—	217	217
Balance at March 31, 2018	$ 1,751	$ (597)	$ 1,154

(1) Amounts reclassified from accumulated other comprehensive income are reclassified to net realized and unrealized (loss) gain on investment securities available-for-sale and loans and derivatives on the Company's consolidated statements of operations.

NOTE 15 - RELATED PARTY TRANSACTIONS

Relationship with C-III and Certain of its Subsidiaries. In September 2016, Resource America was acquired by C-III, a leading CRE investment management and services company engaged in a broad range of activities, including primary and special loan servicing, loan origination, fund management, CDO management, principal investment, zoning due diligence, investment sales and multifamily property management. C-III is indirectly controlled and partially owned by Island Capital Group ("Island Capital"), of which Andrew L. Farkas, Chairman of the Company, is the managing member. Mr. Farkas is also chairman and chief executive officer of C-III. In addition, Robert C. Lieber, the Company's Chief Executive Officer, is an executive managing director of both C-III and Island Capital. Matthew J. Stern, the Company's President, is a senior managing director of both C-III and Island Capital. Jeffrey P. Cohen, who is a member of the Company's Board, is an executive managing director of C-III and president of Island Capital. Those officers and the Company's other executive officers are also officers of the Company's Manager, Resource America, C-III and affiliates of those companies. At March 31, 2018, C-III indirectly beneficially owned 766,718, or 2.4%, of the Company's outstanding common shares.

The Company has entered into a Management Agreement under which the Company's Manager receives substantial fees. For the three months ended March 31, 2018 and 2017, the Manager earned base management fees of approximately $2.8 million and $2.6 million, respectively. No incentive management fees were earned for the three months ended March 31, 2018 and 2017. At March 31, 2018 and December 31, 2017, the Company was indebted to the Manager for $938,000 and $1.0 million, respectively, for base management fees. The Manager and its affiliates provide the Company with a Chief Financial Officer and a sufficient number of additional accounting, finance, tax and investor relations professionals. The Company reimburses the Manager's and its affiliates' expenses for (a) the wages, salaries and benefits of the Chief Financial Officer, (b) a portion of the wages, salaries and benefits of accounting, finance, tax and investor relations professionals, in proportion to such personnel's percentage of time allocated to the Company's operations, and (c) personnel principally devoted to the Company's ancillary operating subsidiaries. The Company also reimburses out-of-pocket expenses and certain other costs incurred by the Manager and its affiliates that relate directly to the Company's operations. For the three months ended March 31, 2018 and 2017, the Company reimbursed the Manager $459,000 and $1.8 million, respectively, for all such compensation and costs. At March 31, 2018 and December 31, 2017, the Company had payables to Resource America and its subsidiaries pursuant to the management agreement aggregating approximately $1.0 million and $629,000, respectively. The Company's base management fee payable and expense reimbursements payable are recorded in management fee payable and accounts payable and other liabilities on the consolidated balance sheets, respectively.

At March 31, 2018, the Company retained equity in six securitizations, which were structured for the Company by the Manager, although three of the securitizations had been substantially liquidated as of March 31, 2018. Under the Management Agreement, the Manager was not separately compensated by the Company for executing these transactions and is not separately compensated for managing the securitization entities and their assets.

In May 2016, the Company entered into a letter agreement with Resource America pursuant to which the Company irrevocably waived its right to terminate the Management Agreement as a result of a "Change of Control" (as defined in the Management Agreement) resulting from the acquisition of Resource America by C-III.

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Relationship with LEAF Commercial Capital. LEAF Commercial Capital, Inc. ("LCC"), a former subsidiary of Resource America in which the Company owned a minority interest, originated and managed equipment leases and notes on behalf of the Company. In November 2011, the Company, together with LEAF Financial (which is a subsidiary of Resource America) and LCC, entered into a securities purchase agreement with Eos Partners, L.P. and certain of its affiliates (see Note 3). The Company's resulting interests in LCC were accounted for under the equity method and recorded in equity in earnings of unconsolidated entities on the consolidated statements of operations. For the three months ended March 31, 2018, the Company recorded no income in respect of the Company's equity interests in LCC. For the three months ended March 31, 2017, the Company recorded income of $165,000 in respect of the Company's equity interests in LCC. In July 2017, the Company sold its equity interests in LCC and received cash proceeds of $84.3 million and, as a result, LCC is no longer considered a related party.
Relationship with CVC Credit Partners. In April 2012, ACM, a former subsidiary of Resource America, was sold to CVC Credit Partners, a joint venture entity in which Resource America indirectly owned a 24% interest through August 2017. CVC Credit Partners managed externally originated syndicated corporate loans on the Company's behalf. In February 2011, one of the Company's subsidiaries purchased 100% of the ownership interests in Churchill Pacific Asset Management LLC ("CPAM") from Churchill Financial Holdings LLC for $22.5 million. CPAM subsequently changed its name to RCAM. Through RCAM, the Company was entitled to collect senior, subordinated and incentive fees related to five CLOs holding approximately $1.9 billion in assets managed by RCAM. RCAM was assisted by CVC Credit Partners in managing these CLOs. CVC Credit Partners was entitled to 10% of all subordinated fees and 50% of the incentive fees received by RCAM. For the three months ended March 31, 2018, CVC Credit Partners earned no subordinated or incentive fees. For the three months ended March 31, 2017, CVC Credit Partners earned subordinated and incentive fees totaling $567,000. In October 2012, the Company purchased 66.6% of the preferred equity in one of the RCAM-managed CLOs. In May 2013, the Company purchased additional equity in this CLO, increasing its ownership percentage to 68.3%. The CLOs were liquidated in February 2013, January 2016, September 2016 and February 2017, respectively. The Company recorded no impairment on the related intangible assets of these CLOs during the three months ended March 31, 2018, and it recorded $177,000 of impairment during the three months ended March 31, 2017. At March 31, 2018, the Company no longer had any investment in RCAM. C-III sold its interest in CVC Credit Partners in August 2017, and, as a result, CVC Credit Partners is no longer considered a related party of the Company.
Relationship with LTCC Funding. The Company also reimbursed Resource America for additional costs incurred related to the Company's life care business, LTCC Funding, established for the purpose of investing in life settlement contracts. The transaction, authorized by the Board in December 2012, provided for an annual reimbursement of $550,000, with a two-year term. In March 2015 and December 2015, the Board authorized the annual reimbursements of $550,000 for fiscal years 2015 and 2016, and in December 2016 the Board authorized a reduced reimbursement of $250,000 for fiscal year 2017. At December 31, 2017, the Company was indebted to Resource America for $63,000, which was paid in January 2018. The annual reimbursement was not renewed for fiscal year 2018.
Relationship with Resource Real Estate, LLC. Resource Real Estate, LLC ("Resource Real Estate"), an indirect wholly-owned subsidiary of Resource America and C-III, originates, finances and manages the Company's CRE loan portfolio. The Company reimburses Resource Real Estate for loan origination costs associated with all loans originated. At March 31, 2018 and December 31, 2017, the Company had receivables from Resource Real Estate for loan deposits of $365,000 and $185,000, respectively.

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The Company has executed the following five real estate securitization transactions, which provide financing for CRE loans: (i) RCC CRE Notes 2013, a $307.8 million securitization that closed in December 2013; (ii) RCC 2014-CRE2, a $353.9 million securitization that closed in July 2014; (iii) RCC 2015-CRE3, a $346.2 million securitization that closed in February 2015; (iv) RCC 2015-CRE4, a $312.9 million securitization that closed in August 2015; and (v) RCC 2017-CRE5, a $376.7 million securitization that closed in July 2017. Resource Real Estate serves as special servicer for each securitization. With respect to each specially serviced mortgage loan, Resource Real Estate receives an amount equal to the product of (a) the special servicing fee rate, 0.25% per annum, multiplied by (b) the outstanding principal balance of such specially serviced mortgage loan. The servicing fee is payable monthly, on an asset-by-asset basis. C3AM serves as the primary servicer for RCC 2017-CRE5 and receives an amount equal to the product of (a) the servicing fee rate, 0.05% per annum, multiplied by (b) the outstanding principal balance of each mortgage loan. The servicing fee is payable monthly, on an asset-by-asset basis. During the three months ended March 31, 2018, C3AM earned approximately $50,000. The Company was indebted to C3AM for approximately $15,000 at March 31, 2018. The Company has utilized the brokerage services of Resource Securities, LLC ("Resource Securities"), an indirect wholly-owned broker-dealer subsidiary of Resource America, on a limited basis to sell some of the securities of the Company's securitizations. The Company paid Resource Securities placement agent fees in connection with the first four securitizaions as follows: $205,000, $175,000, $100,000 and $85,000, respectively. No placement agency fees were paid to Resource Securities in connection with the RCC 2017-CRE5 securitization. In December 2016 and August 2017, RCC CRE Notes 2013 and RCC 2014-CRE2, respectively, were liquidated and, as a result, the remaining assets were returned to RCC Real Estate in exchange for the Company's preference shares and equity notes in those securitizations.

Relationship with C-III Commercial Mortgage and C-III Asset Management. In October 2017, the Company acquired the BB-rated, B-rated and non-rated bonds of the C40 securitization sponsored by Wells Fargo. C3AM serves as the special servicer for the securitization, and C-III Commercial Mortgage LLC contributed loans amounting to 10.2% of the total collateral pool value to the securitization. No special servicing fees were paid to C3AM by that securitization entity during the three months ended March 31, 2018.

Relationship with RCM Global. In July 2014, the Company formed RCM Global Manager to invest in RCM Global, an entity formed to hold a portfolio of structured product securities. The Company contributed $15.0 million for a 63.8% membership interest in RCM Global. At March 31, 2018, the Company's ownership interest in RCM Global was 63.8%, and the remainder was owned by subsidiaries and certain current and former employees of Resource America. For the three months ended March 31, 2018 and 2017, the Company recorded earnings of $13,000 and losses of $4,000, respectively, which were recorded in equity in (losses) earnings of unconsolidated entitites on the consolidated statements of operations.

Relationship with Pelium Capital. In September 2014, the Company contributed $17.5 million to Pelium Capital for an initial ownership interest of 80.4%. Pelium Capital is a specialized credit opportunity fund managed by an indirect wholly-owned subsidiary of C-III. The Company funded its final commitment of $2.5 million in February 2015. The Company received 10% of the carried interest in the partnership. Resource America contributed securities valued at $2.8 million upon the formation of Pelium Capital. For the three months ended March 31, 2018 and 2017, the Company recorded losses of $305,000 and $158,000, respectively, which were recorded in equity in (losses) earnings of unconsolidated entities on the consolidated statements of operations. During the three months ended March 31, 2018, the Company received proceeds of $5.6 million as a result of the partial liquidation of Pelium Capital's investments. During the year ended December 31, 2017, the Company received proceeds of $13.6 million as a result of the partial liquidation of Pelium Capital's investments. The Company's investment balances in Pelium Capital were $4.7 million and $10.5 million at March 31, 2018 and December 31, 2017, respectively. The Company held an 80.2% interest in Pelium Capital at March 31, 2018.

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Relationship with Pearlmark Mezzanine Realty Partners IV. In June 2015, the Company committed to invest up to $50.0 million in Pearlmark Mezz, a Delaware limited partnership. The investment advisor of Pearlmark Mezz is Pearlmark Real Estate LLC ("Pearlmark Manager"), which was 50% owned by Resource America. The Company paid Pearlmark Manager management fees of 1.0% on its unfunded committed capital and 1.5% on its invested capital. The Company was entitled to a management fee rebate of 25% for the first year of the fund, which ended on June 2016. Resource America had agreed that it would credit any such fees paid by the Company to Pearlmark Manager against the base management fee that the Company pays to the Manager. In May 2017, the Company sold its equity interest in Pearlmark Mezz for proceeds of $16.2 million, and, as a result, ceased to have any further investment in or commitment to Pearlmark Mezz. As a result, Pearlmark Mezz is no longer considered a related party.

NOTE 16 - DISTRIBUTIONS

For the quarters ended March 31, 2018 and 2017, the Company declared and subsequently paid dividends of $0.05 per common share.

In order to qualify as a REIT, the Company must currently distribute at least 90% of its taxable income. In addition, the Company must distribute 100% of its taxable income in order to not be subject to corporate federal income taxes on retained income. The Company anticipates it will distribute substantially all of its taxable income to its stockholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as provisions for loan and lease losses and depreciation), in certain circumstances the Company may generate operating cash flow in excess of its distributions or, alternatively, may be required to borrow funds to make sufficient distribution payments.

The Company's 2018 dividends are, and will be, determined by the Company's Board, which will also consider the composition of any dividends declared, including the option of paying a portion in cash and the balance in additional shares of common stock.

The following tables present dividends declared (on a per share basis) for the three months ended March 31, 2018 and year ended December 31, 2017 (and for the period from January 1, 2018 through March 26, 2018 with respect to the Company's Series B Preferred Stock):

	Common Stock		
	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share
2018			
March 31	April 27	$ 1,584	$ 0.05
2017			
March 31	April 27	$ 1,568	$ 0.05
June 30	July 28	$ 1,567	$ 0.05
September 30	October 27	$ 1,566	$ 0.05
December 31	January 26, 2018	$ 1,572	$ 0.05

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	Series A Preferred Stock			Series B Preferred Stock			Series C Preferred Stock		
	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share
2018									
March 26	N/A	N/A	N/A	March 26	$ 1,480	$0.320830	N/A	N/A	N/A
March 31	N/A	N/A	N/A	N/A	N/A	N/A	April 30	$ 2,588	$0.539063
2017									
March 31	May 1	$ 568	$0.531250	May 1	$ 2,859	$0.515625	May 1	$ 2,588	$0.539063
June 30	July 31	$ 568	$0.531250	July 31	$ 2,859	$0.515625	July 31	$ 2,588	$0.539063
September 30	October 30	$ 568	$0.531250	October 30	$ 2,859	$0.515625	October 30	$ 2,588	$0.539063
December 31	January 30, 2018	$ 568	$0.531250	January 30, 2018	$ 2,859	$0.515625	January 30, 2018	$ 2,588	$0.539063

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the Company's financial instruments carried at fair value on a recurring basis based upon the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
At March 31, 2018:				
Assets:				
Investment securities available-for-sale	$ —	$—	$250,746	$250,746
Investment securities, trading	—	—	164	164
Derivatives	—	1,751	—	1,751
Total assets at fair value	$ —	$1,751	$250,910	$252,661
At December 31, 2017:				
Assets:				
Investment securities available-for-sale	$ —	$—	$211,737	$211,737
Investment securities, trading	—	—	178	178
Loans held for sale	—	—	13	13
Derivatives	—	602	—	602
Total assets at fair value	$ —	$602	$211,928	$212,530
Liabilities:				
Derivatives	$ —	$76	$—	$76
Total liabilities at fair value	$ —	$76	$—	$76

In accordance with guidance on fair value measurements and disclosures, the Company is not required to disclose quantitative information with respect to unobservable inputs contained in fair value measurements that are not developed by the Company. As a consequence, the Company has not disclosed such information associated with fair values obtained for investment securities available-for-sale, investment securities, trading, loans held for sale and derivatives from third-party pricing sources.

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The following table presents additional information about the Company's assets that are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs (in thousands, except amount in footnote):

	CMBS	ABS	Structured Notes	Loans Held for Sale	Total
Balance, January 1, 2018	$211,579	$158	$ 178	$ 13	$211,928
Included in earnings [(1)]	639	(217)	(3)	7	426
Purchases	43,275	—	—	—	43,275
Sales	—	(48)	(11)	—	(59)
Paydowns	(3,379)	—	—	(20)	(3,399)
Capitalized interest	—	7	—	—	7
Included in OCI	(1,368)	100	—	—	(1,268)
Balance, March 31, 2018	$250,746	$—	$ 164	$—	$250,910

(1) For loans held for sale classified as Level 3 at March 31, 2018, the Company recorded changes in unrealized gains of $7,000 for the three months ended March 31, 2018, in fair value adjustments on assets held for sale on the consolidated statements of operations.

Legacy CRE whole loans are measured at fair value on a nonrecurring basis. To determine fair value of the legacy CRE whole loans, the Company primarily uses appraisals obtained from third-parties as a practical expedient. The Company may also use the present value of estimated cash flows, market price, if available, or other determinants of the fair value of the collateral less estimated disposition costs. During the three months ended March 31, 2018, a loss of $4.7 million was recorded on one legacy CRE whole loan, which included protective advances of $172,000, to adjust the loan to its average value, equal to $18.0 million at March 31, 2018, of two appraisals. The loan had a carrying value of $22.5 million at December 31, 2017. The capitalization rates used in the updated appraisals were 9.25% and 9.75% at March 31, 2018.

The Company is required to disclose the fair value of financial instruments for which it is practicable to estimate that value. The fair values of the Company's short-term financial instruments such as cash and cash equivalents, restricted cash, accrued interest receivable, principal paydowns receivable, accrued interest payable and distributions payable approximate their carrying values on the consolidated balance sheets. The fair values of the Company's investment securities, trading are reported in Note 7. The fair values of the Company's investment securities available-for-sale are reported in Note 8. The fair values of the Company's loans held for sale are reported in Note 5. The fair values of the Company's derivative instruments are reported in Note 18.

The fair values of the Company's loans held for investment are measured by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Fair values of loans with variable interest rates are expected to approximate fair value. Fair values of loans with fixed rates are calculated using the net present values of future cash flows, discounted at market rates. The Company's CRE loans have interest rates from 5.19% to 8.00% and 5.06% to 7.63% at March 31, 2018 and December 31, 2017, respectively.

The fair value of the Company's preferred equity investment is measured by discounting the expected cash flows using the future expected coupon rates. The Company's preferred equity investment is discounted at a rate of 12.78%.

Senior notes in CRE securitizations are valued using dealer quotes, typically sourced from the dealer who underwrote the applicable CRE securitization.

The fair values of the junior subordinated notes RCT I and RCT II are estimated by using a discounted cash flow model with discount rates of 11.34% and 11.34%, respectively.

The fair value of the convertible notes is determined using a discounted cash flow model that discounts the expected future cash flows using current interest rates on similar debts that do not have a conversion option. The 6.00% Convertible Senior Notes are discounted at a rate of 4.54%, the 8.00% Convertible Senior Notes are discounted at a rate of 4.92% and the 4.50% Convertible Senior Notes are discounted at a rate of 7.17%.

Repurchase agreements are variable rate debt instruments indexed to LIBOR that reset periodically and, as a result, their carrying value approximates their fair value, excluding deferred debt issuance costs.

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The fair values of the Company's remaining financial instruments that are not reported at fair value on the consolidated balance sheets are reported in the following table (in thousands):

		Fair Value Measurements			
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets of Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At March 31, 2018:					
Assets:					
Loans held for investment	$1,357,991	$1,367,253	$ —	$ —	$ 1,367,253
CRE preferred equity investment	$19,008	$19,200	$ —	$ —	$ 19,200
Legacy CRE whole loans held for sale	$57,341	$58,341	$ —	$ —	$ 58,341
Liabilities:					
Senior notes in CRE securitizations	$298,971	$302,188	$ —	$ —	$ 302,188
Junior subordinated notes	$51,548	$28,584	$ —	$ —	$ 28,584
Convertible notes	$218,421	$235,385	$ —	$ —	$ 235,385
Repurchase agreements	$653,446	$654,436	$ —	$ —	$ 654,436
At December 31, 2017:					
Assets:					
Loans held for investment	$1,284,822	$1,294,664	$ —	$ —	$ 1,294,664
Legacy CRE whole loans held for sale	$61,841	$62,841	$ —	$ —	$ 62,841
Liabilities:					
Senior notes in CRE securitizations	$416,655	$420,084	$ —	$ —	$ 420,084
Junior subordinated notes	$51,548	$26,574	$ —	$ —	$ 26,574
Convertible notes	$217,365	$235,385	$ —	$ —	$ 235,385
Repurchase agreements	$477,917	$479,383	$ —	$ —	$ 479,383

NOTE 18 - MARKET RISK AND DERIVATIVE INSTRUMENTS

The Company is affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as "market risks." When deemed appropriate, the Company uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risks managed by the Company through the use of derivative instruments are interest rate risk and foreign currency exchange rate risk.

The Company may hold various derivatives in the ordinary course of business, including: interest rate swaps and forward contracts. Interest rate swaps are contracts between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts represent future commitments to either purchase or to deliver a quantity of a currency (foreign currency hedging) at a predetermined future date, at a predetermined rate or price and are used to manage currency risk with respect to the Company's long positions in foreign currency-denominated investment securities.

A significant market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Company's interest-earning assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Company's interest-earning assets pledged as collateral for borrowings could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. The Company seeks to mitigate the potential impact on net income (loss) of adverse fluctuations in interest rates incurred on its borrowings by entering into hedging agreements.

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The Company classifies its interest rate risk hedges as cash flow hedges, which are hedges that eliminate the risk of changes in the cash flows of a financial asset or liability. The Company records changes in fair value of derivatives designated and effective as cash flow hedges in accumulated other comprehensive income, and records changes in fair value of derivatives designated and ineffective as cash flow hedges in earnings.

At March 31, 2018 and December 31, 2017, the Company had eight and seven, respectively, interest rate swap contracts outstanding whereby the Company paid a weighted average fixed rate of 2.13% and 2.08%, respectively, and received a variable rate equal to one-month LIBOR. The aggregate notional amount of these contracts was $44.6 million and $41.8 million at March 31, 2018 and December 31, 2017, respectively. The counterparty for the Company's designated interest rate hedge contracts at March 31, 2018 and December 31, 2017 was Wells Fargo.

The estimated fair value of the Company's assets related to interest rate swaps was $1.8 million and $602,000 at March 31, 2018 and December 31, 2017, respectively. The Company had aggregate unrealized gains of $1.8 million and $602,000 on the interest rate swaps at March 31, 2018 and December 31, 2017, respectively, which are recorded in accumulated other comprehensive income on the consolidated balance sheets.

The Company incurred interest expense of $18,000 during the three months ended March 31, 2017, to fully amortize the remaining accumulated other comprehensive (loss) on a swap agreement that was terminated in April 2016. There was no interest expense for the three months ended March 31, 2018 relating to amortization of accumulated other comprehensive income (loss) for terminated swap agreements.

The Company had a master netting agreement with Wells Fargo at March 31, 2018. Regulations promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 mandate that the Company clear certain new interest rate swap transactions through a central counterparty. Transactions that are centrally cleared result in the Company facing a clearing house, rather than a swap dealer, as counterparty. Central clearing requires the Company to post collateral in the form of initial and variation margin to satisfy potential future obligations. At March 31, 2018 and December 31, 2017, respectively, the Company had centrally cleared interest rate swap contracts with a fair value in an asset position of $1.8 million and $602,000, respectively.

The Company was also exposed to foreign currency exchange rate risk, a form of risk that arises from the change in price of one currency against another. However, substantially all of the Company's revenues were transacted in U.S. dollars. To address this market risk, the Company generally hedged foreign currency-denominated exposures (typically investments in debt instruments, including forecasted principal and interest payments) with foreign currency forward contracts. The Company classified these hedges as fair value hedges, which are hedges that mitigated the risk of changes in the fair values of assets, liabilities, and certain types of firm commitments. The Company recorded changes in fair value of derivatives designated and effective as fair value hedges in earnings offset by corresponding changes in the fair values of the hedged items. As of March 31, 2018, the Company held no foreign currency forward contracts.

Forward contracts also contain an element of risk in that the counterparties may be unable to meet the terms of such agreements. In the event the parties to deliver commitments are unable to fulfill their obligations, the Company could potentially incur significant additional costs by replacing the positions at then current market rates. The Company manages its risk of exposure by limiting counterparties to those banks and institutions deemed appropriate by management. The Company does not expect any counterparty to default on its obligations and, therefore, the Company does not expect to incur any cost related to counterparty default.

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The following tables present the fair value of the Company's derivative financial instruments as well as their classification on the Company's consolidated balance sheets and on the consolidated statements of operations for the periods presented:

Fair Value of Derivative Instruments at March 31, 2018 (in thousands)

	Asset Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging [1]	$ 44,570	Derivatives, at fair value	$ 1,751

	Liability Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging	$ 44,570	Accumulated other comprehensive income	$ 1,751

(1) Interest rate swap contracts are accounted for as cash flow hedges.

Fair Value of Derivative Instruments at December 31, 2017 (in thousands, except amount in footnotes)

	Asset Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging [1]	$ 41,750	Derivatives, at fair value	$ 602

	Liability Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Forward contracts - foreign currency, hedging [2][3]	$ 3,602	Derivatives, at fair value	$ 76
Interest rate swap contracts, hedging	$ 41,750	Accumulated other comprehensive income	$ 602

(1) Interest rate swap contracts are accounted for as cash flow hedges.
(2) Foreign currency forward contracts are accounted for as fair value hedges.
(3) Notional amount is presented on a currency converted basis. The base currency notional amount of the Company's foreign currency hedging forward contracts in a liability position was €3.0 million at December 31, 2017.

The Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three Months Ended March 31, 2018 (in thousands)

	Derivatives Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) [(1)]
Interest rate swap contracts, hedging	Interest expense	$ (50)

(1) Negative values indicate a decrease to the associated consolidated statements of operations line items.

The Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three Months Ended March 31, 2017 (in thousands)

	Derivatives Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) [(1)]
Interest rate swap contracts, hedging	Interest expense	$ (18)
Forward contracts - foreign currency, hedging	Net realized and unrealized (loss) gain on investment securities available-for-sale and loans and derivatives	$ (195)

(1) Negative values indicate a decrease to the associated consolidated statements of operations line items.

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NOTE 19 - OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following table presents a summary of the Company's offsetting of derivative assets (in thousands, except amounts in footnotes):

	(i) Gross Amounts of Recognized Assets	(ii) Gross Amounts Offset on the Consolidated Balance Sheets	(iii) = (i) - (ii) Net Amounts of Assets Included on the Consolidated Balance Sheets	(iv) Gross Amounts Not Offset on the Consolidated Balance Sheets		(v) = (iii) - (iv) Net Amount
				Financial Instruments	Cash Collateral Pledged	
At March 31, 2018:						
Derivatives, at fair value [1]	$ 1,751	$ —	$ 1,751	$ —	$ —	$ 1,751
At December 31, 2017:						
Derivatives, at fair value [1]	$ 602	$ —	$ 602	$ —	$ —	$ 602

(1) The Company posted cash margin of $13,000 and $1.9 million related to interest rate swap contracts entered into at March 31, 2018 and December 31, 2017, respectively.

The following table presents a summary of the Company's offsetting of financial liabilities and derivative liabilities (in thousands, except amounts in footnotes):

	(i) Gross Amounts of Recognized Liabilities	(ii) Gross Amounts Offset on the Consolidated Balance Sheets	(iii) = (i) - (ii) Net Amounts of Liabilities Included on the Consolidated Balance Sheets	(iv) Gross Amounts Not Offset on the Consolidated Balance Sheets		(v) = (iii) - (iv) Net Amount
				Financial Instruments [1]	Cash Collateral Pledged	
At March 31, 2018:						
Repurchase agreements and term facilities [2]	$ 653,446	$ —	$ 653,446	$ 653,446	$ —	$ —
Total	$ 653,446	$ —	$ 653,446	$ 653,446	$ —	$ —

At December 31, 2017:						
Derivatives, at fair value	$ 76	$ —	$ 76	$ —	$ —	$ 76
Repurchase agreements and term facilities (2)	477,917	—	477,917	477,917	—	—
Total	$ 477,993	$ —	$ 477,993	$ 477,917	$ —	$ 76

(1) Amounts represent financial instruments pledged that are available to be offset against liability balances associated with term facilities, repurchase agreements and derivative transactions.

(2) The combined fair value of securities and loans pledged against the Company's various repurchase agreements and term facilities was $1.1 billion and $816.1 million at March 31, 2018 and December 31, 2017, respectively.

All balances associated with repurchase agreements and derivatives are presented on a gross basis on the Company's consolidated balance sheets.

Certain of the Company's repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

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NOTE 20 - COMMITMENTS AND CONTINGENCIES

The Company may become involved in litigation on various matters due to the nature of the Company's business activities. The resolution of these matters may result in adverse judgments, fines, penalties, injunctions and other relief against the Company as well as monetary payments or other agreements and obligations. In addition, the Company may enter into settlements on certain matters in order to avoid the additional costs of engaging in litigation. Except as discussed below, the Company is unaware of any contingencies arising from such litigation that would require accrual or disclosure in the consolidated financial statements at March 31, 2018.

Open Litigation Matters

Six separate shareholder derivative suits (the "New York State Actions") purporting to assert claims on behalf of the Company were filed in the Supreme Court of New York on the following dates: December 2015 (the "Reaves Action"), February 2017 (the "Caito Action"), March 2017 (the "Simpson Action"), March 2017 (the "Heckel Action"), May 2017 (the "Schwartz Action") and August 2017 (the "Greff Action"). Plaintiffs in the Schwartz Action and Greff Action made demands on the Company's Board before filing suit, but plaintiffs in the Reaves Action, Caito Action, Simpson Action and Heckel Action did not. All of the shareholder derivative suits are substantially similar and allege that certain of the Company's current and former officers and directors breached their fiduciary duties, wasted corporate assets and/or were unjustly enriched. Certain complaints assert additional claims against the Manager and Resource America for unjust enrichment based on allegations that the Manager received excessive management fees from the Company. In June 2017, the Court stayed the Reaves Action, Caito Action, Simpson Action and Heckel Action (collectively, the "New York State Demand Futile Actions") in favor of the federal shareholder derivative litigation described below. The Company's time to respond to the complaints in the Schwartz Action and Greff Action is presently stayed by stipulation of the parties. The Company believes that the plaintiffs in each of the New York State Actions lack standing to assert claims derivatively on its behalf, and it intends to seek the dismissal of any New York State Action as to which the stay is lifted.

Four separate shareholder derivative suits purporting to assert claims on behalf of the Company were filed in the United States District Court for the Southern District of New York (the "Court") on the following dates by shareholders who declined to make a demand on the Board prior to filing suit: January 2017 (the "Greenberg Action"), January 2017 (the "Canoles Action"), January 2017 (the "DeCaro Action") and April 2017 (the "Gehan Action"). In May 2017, the Court consolidated the Greenberg Action, Canoles Action, DeCaro Action and Gehan Action as the "Federal Demand Futile Actions" and, in July 2017, appointed lead counsel and directed that a consolidated complaint be filed. Following consolidation, the plaintiffs in the Canoles Action and Gehan Action voluntarily dismissed their suits. The consolidated complaint in the Federal Demand Futile Actions, filed in August 2017, alleged claims for breach of fiduciary duty, corporate waste, unjust enrichment and violations of Section 14(a) of the Securities Exchange Act of 1934, as amended. In April 2018, the consolidated complaint in the Federal Demand Futile Actions was dismissed but such dismissal currently on appeal.

Three additional shareholder derivative suits purporting to assert claims on behalf of the Company were filed in the United States District Court for the Southern District of New York on the following dates by shareholders who served demands on the Board to bring litigation and allege that their demands were wrongfully refused: February 2017 (the "McKinney Action"), March 2017 (the "Sherek/Speigel Action") and April 2017 (the "Sebenoler Action"). In May 2017, the Court consolidated the McKinney Action, Sherek/Speigel Action and Sebenoler Action as the "Federal Demand Refused Actions." A consolidated complaint was filed on June 30, 2017, alleging claims for breach of fiduciary duty, unjust enrichment and violations of Section 14(a) of the Securities Exchange Act of 1934, as amended. The consolidated complaint in the Federal Demand Refused Actions was dismissed in February 2018 but such dismissal is currently on appeal.

In August 2017, Robert Canoles filed a shareholder derivative suit in Maryland Circuit Court against certain of the Company's current and former officers and directors, as well as the Manager and Resource America (the "Canoles Action"). Mr. Canoles had previously filed his suit in the United States District Court for the Southern District of New York, but voluntarily dismissed that action after the Court declined to appoint his counsel as lead counsel in the Federal Demand Futile Actions. The complaint in the Canoles Action, as amended in October 2017, asserts a variety of claims, including claims for breach of fiduciary duty, unjust enrichment and corporate waste, which are based on allegations substantially similar to those at issue in the Federal Demand Futile Actions. The Canoles Action was stayed by the Maryland Circuit Court in favor of the federal shareholder litigation described above. The Company believes that Canoles lacks standing to assert claims derivatively on its behalf and intends to seek the dismissal of the Canoles Action on that basis if the stay is lifted.

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In September 2017, Michael Hafkey filed a shareholder derivative suit in the United States District Court for the District of Maryland against certain of the Company's former officers and directors and the Manager (the "Hafkey Action"). The complaint asserts a breach of fiduciary duty claim that is substantially similar to the claims at issue in the Federal Demand Refused Actions. Mr. Hafkey previously made a demand on the Board to investigate this claim, which was ultimately denied. The Company believes that Hafkey's claim that his demand to bring litigation was wrongfully refused is without merit and that Hafkey consequently lacks standing to assert claims derivatively on the Company's behalf. The Company filed a motion to stay the Hafkey Action in favor of the duplicative Federal Demand Futile Actions, which is pending.

The Company had a general litigation reserve of $2.2 million, including estimated legal costs, for amounts in excess of its insurance coverage at both March 31, 2018 and December 31, 2017.

PCM is subject to litigation related to claims for repurchases or indemnifications on loans that PCM has sold to third parties. At March 31, 2018, no such litigation demands were outstanding. At December 31, 2017 such litigation demands totaled approximately $6.5 million. Such litigation demands are included in the reserve for mortgage repurchases and indemnifications that totaled $1.7 million and $5.7 million at March 31, 2018 and December 31, 2017, respectively. The reserves for mortgage repurchases and indemnifications are included in liabilities held for sale on the consolidated balance sheets.

Settled Litigation Matters, Including Pending Settlements

PCM was the subject of a lawsuit brought by a purchaser of residential mortgage loans alleging breaches of representations and warranties made on loans sold to the purchaser. The asserted repurchase claims related to loans sold to the purchaser that were subsequently sold by the purchaser to either the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation and loans sold to the purchaser that were subsequently securitized and sold as RMBS by the purchaser to RMBS investors. This matter was settled on January 8, 2018.

On November 22, 2017, the Plaintiff's motion for class certification was granted in Levin v. Resource Capital Corp. (the "Levin Action"), a previously disclosed securities litigation against the Company and certain of its current and former officers that is pending in the United States District Court for the Southern District of New York. On February 5, 2018, the Company entered into a stipulation and agreement of settlement (the "Settlement"), which received preliminary approval from the Court in April 2018, that is intended to settle all claims asserted in the action on behalf of the certified class, which consists, with specified exceptions, of all persons who purchased the Company's common stock, Series B Preferred Stock or Series C Preferred Stock between October 31, 2012 and August 5, 2015. Under the terms of the proposed Settlement, which has been filed publicly with the Court, a payment of $9.5 million would be made to settle the litigation. The settlement payment would be funded principally by insurance coverage, and the Company does not anticipate that the Settlement would have a material adverse impact on its financial condition. In exchange for the settlement consideration, the Company and the individual defendants in the Levin Action (and certain related parties) would be released from all claims that have been or could have been asserted in the case by class members (and certain related parties), excluding persons who opt out of the Settlement, as further described in the stipulation and agreement of settlement filed with the Court. The proposed Settlement contains no admission of misconduct by the Company or any of the individual defendants and expressly acknowledges that the Company and the individual defendants deny all allegations of wrongdoing and maintain that it and they have at all times acted in good faith and in compliance with the law. The proposed Settlement is subject to, among other conditions, final court approval. Further, the Company has the right to terminate the Settlement under certain conditions, including if a specified number of class members timely and validly requesting exclusion from the class. There can be no assurance that the proposed Settlement will be finalized and approved, and the actual outcome of this matter may differ materially from the terms of the proposed Settlement described herein.

Other Contingencies

In May 2017, the Company received proceeds of $16.2 million from the sale of its equity interest in Pearlmark Mezz, an unconsolidated entity. As part of the sale of Pearlmark Mezz, the Company entered into an indemnification agreement whereby the Company indemnified the purchaser against realized losses of up to $4.3 million on the Kingsway mezzanine loan until the final maturity date in 2020. At March 31, 2018, the Company has a contingent liability, reported in accounts payable and other liabilities on its consolidated balance sheets, of $703,000 outstanding as a reserve for probable losses on the indemnification. No reserve for probable losses was recorded during the three months ended March 31, 2018.

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PCM is subject to additional claims for repurchases or indemnifications on loans that PCM has sold to investors. At March 31, 2018 and December 31, 2017, outstanding demands for indemnification, repurchase or make whole payments totaled $3.3 million and $3.3 million, respectively. The Company's estimated exposure for such outstanding claims as well as unasserted claims, is included in its reserve for mortgage repurchases and indemnifications.

Unfunded Commitments

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

NOTE 21 - DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

In November 2016, the Company received approval from its Board to execute the Plan to focus its strategy on CRE debt investments. The Plan contemplates disposing of certain legacy CRE loans and exiting underperforming non-core asset classes. Non-real estate businesses identified for sale were the residential mortgage and middle market lending segments as well as the Company's life settlement policy portfolio, or LCF. The Company reclassified the operating results of the residential mortgage and middle market lending segments as discontinued operations and excluded from continuing operations for all periods presented. In addition, the Company transferred the assets and liabilities of LCF and non-performing legacy CRE loans to held for sale in the fourth quarter of 2016. As of March 31, 2018, the Company has disposed of substantially all of the non-real estate businesses identified for sale.

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The following table summarizes the operating results of the residential mortgage and middle market lending segments discontinued operations as reported separately as income (loss) from discontinued operations, net of tax for the three months ended March 31, 2018 and 2017 (in thousands):

	For the Three Months Ended March 31,	
	2018	2017
REVENUES		
Interest income:		
Loans	$570	$897
Other	4	13
Total interest income	574	910
Interest expense	—	—
Net interest income	574	910
Gain (loss) on sale of residential mortgage loans	(14)	3,825
Fee income (loss)	99	2,180
Total revenues	659	6,915
OPERATING EXPENSES		
Equity compensation	—	59
General and administrative	660	7,473
Total operating expenses	660	7,532
	(1)	(617)
OTHER INCOME (EXPENSE)		
Net realized and unrealized gain (loss) on investment securities available-for-sale and loans and derivatives	248	(2)
Fair value adjustments on financial assets held for sale	—	58
Total other income (expense)	248	56
INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE TAXES	247	(561)
Income tax expense	—	—
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	247	(561)
Loss from disposal of discontinued operations	—	—
TOTAL INCOME (LOSS) FROM DISCONTINUED OPERATIONS	$247	$(561)

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The assets and liabilities of business segments classified as discontinued operations and other assets and liabilities classified as held for sale are reported separately in the accompanying consolidated financial statements and are summarized as follows at March 31, 2018 and December 31, 2017 (in thousands, except amounts in the footnote):

	March 31, 2018	December 31, 2017
ASSETS		
Restricted cash	$ 138	$ 138
Accrued interest receivable	33	67
Loans held for sale	59,320	93,063
Property available-for-sale	117	—
Principal paydowns receivable	14,827	—
Other assets (1)	3,186	14,450
Total assets held for sale	$ 77,621	$ 107,718
LIABILITIES		
Accounts payable and other liabilities	$ 2,883	$ 10,283
Management fee payable	—	56
Accrued interest payable	—	3
Total liabilities held for sale	$ 2,883	$ 10,342

(1) Includes the Company's investment in life settlement contracts of $177,000 and $5.1 million at March 31, 2018 and December 31, 2017, respectively, which were transferred to held for sale in the fourth quarter of 2016.

In the first quarter of 2018, the Company sold its remaining syndicated middle market loans, with an aggregate carrying value of $27.3 million at December 31, 2017, generating proceeds $27.6 million, of which $12.7 million had been received in cash at March 31, 2018. The Company recognized a $216,000 net realized gain on these sales for the three months ended March 31, 2018.

The following table summarizes the loans held for sale in the residential mortgage and middle market lending segments as well as the non-performing legacy CRE loans transferred to held for sale in the fourth quarter of 2016. The loans held for sale are carried at the lower of cost or fair value (in thousands, except quantities and amounts in footnotes):

Loan Description	Number of Loans	Amortized Cost	Carrying Value
At March 31, 2018:			
Legacy CRE whole loans	4	$ 63,882	$ 57,341
Mezzanine loans (1)	1	—	—
Middle market loans (2)	1	13,837	1,979
Total loans held for sale	6	$ 77,719	$ 59,320
At December 31, 2017:			
Legacy CRE whole loans	5	$ 63,783	$ 61,841
Mezzanine loans (1)	1	—	—
Middle market loans (2)	5	41,199	29,308
Residential mortgage loans (3)(4)(5)	14	1,914	1,914
Total loans held for sale	25	$ 106,896	$ 93,063

(1)

Includes a mezzanine loan with a par value of $38.1 million that was acquired at a fair value of zero as a result of the liquidations of Resource Real Estate Funding CDO 2006-1, Ltd. in April 2016 and Resource Real Estate Funding CDO 2007-1, Ltd. in November 2016. The mezzanine loan is comprised of two tranches, maturing in November 2018 and September 2021.

(2) Includes a directly originated middle market loan with fair values of $2.0 million and $2.0 million at March 31, 2018 and December 31, 2017, respectively. At March 31, 2018, the loan is current with the terms of a forbearance agreement, extending the loan to allow for the borrower to seek a sale of its business. The loan's fair value was supported by a third party valuation mark prepared at December 31, 2017, which the Company relied on at March 31, 2018.

(3) The fair value option was elected for residential mortgage loans held for sale.

(4) The Company's residential mortgage loan portfolio was comprised of both agency loans and non-agency jumbo loans. The fair values of the agency loan portfolio were generally classified as Level 2 in the fair value hierarchy, as those values are determined based on quoted market prices for similar assets or upon other observable inputs. The fair values of the jumbo loan portfolio were generally classified as Level 3 in the fair value hierarchy, as those values are generally based upon valuation techniques that utilize unobservable inputs that reflect the assumptions that a market participant would use in pricing those assets.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2018
(unaudited)

NOTE 22 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing of this report and determined that there have not been any events that have occurred that would require adjustments to or disclosures in the consolidated financial statements, except the following:

On May 3, 2018, the Company announced that effective at 5:00 p.m. (EDT) on May 25, 2018, the Company will change its name to "Exantas Capital Corp." The Company's common stock and Series C Preferred Stock will continue to be listed on the NYSE and the Company anticipates that on May 29, 2018 its common stock will begin trading under the symbol "XAN" and its Series C Preferred Stock will begin trading under the symbol "XAN PrC." The Company's new CUSIP number for its common stock following the name change will be 30068N105 and the new CUSIP number for its Series C Preferred Stock will be 30068N402.

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ITEM 2 . MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes appearing elsewhere in this report. This discussion contains forward-looking statements. Actual results could differ materially from those expressed in or implied by those forward-looking statements. Additionally, please see the sections "Forward-Looking Statements" and "Risk Factors" for a discussion of risks, uncertainties and assumptions associated with those statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

We are a Maryland corporation and a real estate investment trust ("REIT") that is primarily focused on originating, holding and managing commercial mortgage loans and commercial real estate-related debt investments. We are externally managed by Resource Capital Manager, Inc. (our "Manager"), which is an indirect wholly-owned subsidiary of C-III Capital Partners LLC ("C-III"), a leading commercial real estate ("CRE") investment management and services company engaged in a broad range of activities. C-III is the beneficial owner of shares of our common stock (2.4% of our outstanding shares at March 31, 2018). Our Manager draws upon the management teams of C-III and its subsidiaries and its collective investment experience to provide its services. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategies. Historically, we have made other residential real estate and commercial finance investments. We have financed a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of our investments, and we have sought to mitigate interest rate risk through derivative instruments.

We are organized and have elected to be taxed as a REIT for U.S. federal income tax purposes under Subchapter M of the Internal Revenue Code of 1986, as amended. We also intend to operate our business in a manner that will permit us to remain excluded from registration as an investment company under the Investment Company Act of 1940.

Our investment strategy targets the following CRE credit investments, including:

- First mortgage loans, which we refer to as whole loans. These loans are typically secured by first liens on CRE property, including the following property types: office, multifamily, self-storage, retail, hotel, healthcare, student housing, manufactured housing, industrial and mixed-use.
- First priority interests in first mortgage loans, which we refer to as A-Notes. The A-Note is typically a privately negotiated loan that is secured by a first mortgage on a commercial property or group of related properties that is senior to a B-Note secured by the same first mortgage property or group.
- Subordinated interests in first mortgage loans, which we refer to as B-Notes. A B-Note is typically a privately negotiated loan that is secured by a first mortgage on a commercial property or group of related properties and is subordinated to an A-Note secured by the same first mortgage property or group. B-Notes are subject to more credit risk with respect to the underlying mortgage collateral than the corresponding A-Note.
- Mezzanine debt that is senior to borrower's equity but is subordinated to other third-party debt. Like B-Notes, these loans are also subordinated CRE loans, but are usually secured by a pledge of the borrower's equity ownership in the entity that owns the property or by a second lien mortgage on the property.
- Preferred equity investments that are subordinate to first mortgage loans and mezzanine debt. These investments may be subject to more credit risk than subordinated debt but provide the potential for higher returns upon a liquidation of the underlying property and are typically structured to provide some credit enhancement differentiating it from the common equity in such investments.
- Commercial mortgage-backed securities, which we refer to as CMBS, that are collateralized by commercial mortgage loans, including senior and subordinated investment grade CMBS, below investment grade CMBS and unrated CMBS.
- Other CRE Investments: We may invest in other income producing real estate debt and equity investments.

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance our ownership of those assets, including corporate debt and from hedging interest rate risks. Historically, we have generated revenues from the interest and fees earned on our CRE whole loans, B notes, mezzanine loans, preferred equity investments, CMBS, middle market loans, other asset-backed securities ("ABS") and structured note investments.

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We use leverage to enhance our returns, and we have financed each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments is a significant part of our expenses. Our net income depends on our ability to control these expenses relative to our revenue. We historically have financed our CRE loan portfolio with repurchase agreements as a short-term financing source and securitizations and, to a lesser extent, other term financing as long-term financing sources. We expect to continue to use these financing sources into the near term future. We use derivative financial instruments to hedge a portion of the interest rate risk associated with our borrowings. We generally seek to minimize interest rate risk with a strategy that is expected to result in the least amount of volatility under generally accepted accounting principles while still meeting our strategic economic objectives and maintaining adequate liquidity and flexibility. These hedging transactions may include interest rate swaps, collars, caps or floors, puts, calls and options.

In November 2016, we received approval from our board of directors (the "Board") to execute a strategic plan (the "Plan") to focus our strategy on CRE debt investments. The Plan contemplates disposing of certain loans underwritten prior to 2010 ("legacy CRE loans"), exiting non-core businesses and investments, including residential real estate and commercial finance assets (collectively the "Identified Assets"), and establishing a dividend policy based on sustainable earnings.

We began the process of disposing of several ancillary businesses and investments as part of the Plan during the fourth quarter of 2016. The dispositions include our residential mortgage origination operations and our middle market lending segment, which currently holds a impaired directly originated middle market loan. We moved these segments to discontinued operations and also moved our life settlement contract investment as well as several legacy CRE loans to held for sale classification in the fourth quarter of 2016 and recognized impairments to adjust the carrying value of these businesses and investments to their estimated fair market value. We have substantially completed the execution of the Plan as of March 31, 2018. At March 31, 2018, we have approximately $62.6 million left in the Plan, of which $57.3 million relates to the remaining legacy CRE loans.

The following table delineates the disposable investments by business segment and details the current net book value of each included in the Plan (in millions):

	Identified Assets at Plan Inception	Impairments/Adjustments on Non-Monetized Assets [1][2]	Impairments/Adjustments on Monetized Assets [1]	Monetized through March 31, 2018 [3]	Net Book Value at March 31, 2018 [3]
Discontinued operations and assets held for sale:					
Legacy CRE loans [4]	$ 194.7	$ (18.3)	$ (11.7)	$ (107.4)	$ 57.3
Middle market loans	73.8	(17.0)	(0.8)	(54.0)	2.0
Residential mortgage lending segment [5]	56.6	(1.7)	(9.6)	(43.7)	1.6
Other assets held for sale	5.9	—	3.9	(8.9)	0.9
Subtotal - discontinued operations and assets held for sale	331.0	(37.0)	(18.2)	(214.0)	61.8
Investments in unconsolidated entities	86.6	—	38.3	(124.3)	0.6
Commercial finance assets	62.5	—	—	(62.3)	0.2
Total	$ 480.1	$ (37.0)	$ 20.1	$ (400.6)	$ 62.6

(1) Reflects adjustments as a result of the designation as assets held for sale or discontinued operations, which occurred during the third and fourth quarters of 2016 except as noted in (2) below.

(2) The impairment adjustment to middle market loans includes $5.4 million of fair value adjustments that occurred prior to the inception of the Plan.

(3)

Residential mortgage lending segment and investments in unconsolidated entities include pro forma adjustments of $3.6 million and $4.3 million, respectively, for proceeds received in April 2018. Middle market loans include pro forma adjustments of $14.8 million for proceeds received in May 2018.

(4) Legacy CRE loans include $118.2 million par value of loans at the inception of the Plan that were not reflected on the consolidated balance sheets until our investment in Resource Real Estate Funding CDO 2007-1, Ltd. ("RREF CDO 2007-1") was liquidated in November 2016.

(5) Includes $1.9 million of cash and cash equivalents not classified as assets held for sale in the residential mortgage lending segment at March 31, 2018.

We have deployed the incremental capital received primarily into our CRE lending business and CMBS investments. We typically target transitional floating-rate CRE loans between $20.0 million and $30.0 million. Since December 31, 2016, we have originated 37 CRE loans with total commitments of $746.6 million, of which $146.3 million of loan commitments were originated during the three months ended March 31, 2018. Since December 31, 2016, we have acquired CMBS with total face values of $256.2 million, of which $44.3 million were acquired during the three months ended March 31, 2018. These investments were initially financed, in part, through our CRE and CMBS term facilities and, in the case of CRE loans, through securitizations. In furtherance of our Plan, we intend to continue to utilize proceeds from the monetized assets, coupled with available debt financing of $219.7 million at March 31, 2018, to grow our CRE lending operation in 2018.

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In furtherance of the actions taken to reduce our cost of capital, we redeemed all shares of our 8.50% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") and 8.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"), at a total redemption cost of $165.3 million, during the first quarter of 2018. The redemptions eliminated approximately $13.7 million of preferred stock dividends on an annual basis.

In furtherance of the Plan, the allocation of our equity at March 31, 2018 was: 89% in core assets and 11% in non-core assets. At December 31, 2017, the allocation of our equity was: 84% in core assets and 16% in non-core assets.

Results of Operations

Our net loss allocable to common shares for the three months ended March 31, 2018 was $12.6 million, or $(0.40) per share-basic ($(0.40) per share-diluted), as compared to net income allocable to common shares for the three months ended March 31, 2017 of $2.7 million, or $0.09 per share-basic ($0.09 per share-diluted).

Net Interest Income

The following table analyzes the change in interest income and interest expense for the comparative three months ended March 31, 2018 and 2017 by changes in volume and changes in rates. The changes attributable to the combined changes in volume and rate have been allocated proportionately, based on absolute values, to the changes due to volume and changes due to rates (in thousands):

	Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017		
		Due to Changes in	
	Net Change	Volume	Rate
Increase (decrease) in interest income:			
CRE loans	$850	$(404)	$1,254
Securities	1,148	1,982	(834)
Other	(1,512)	(1,512)	—
Total increase (decrease) in interest income	486	66	420
Increase (decrease) in interest expense:			
Securitized borrowings:			
RCC 2014-CRE2 Senior Notes	(1,430)	(1,430)	—
RCC 2015-CRE3 Senior Notes	(903)	(1,564)	661
RCC 2015-CRE4 Senior Notes	(907)	(1,306)	399
RCC 2017-CRE5 Senior Notes	1,857	1,857	—
Unsecured Junior Subordinated Debentures	84	—	84
Convertible senior notes:			
4.50% Convertible Senior Notes	2,365	2,365	—
6.00% Convertible Senior Notes	(835)	(835)	—
8.00% Convertible Senior Notes	(1,804)	(1,804)	—
CRE - Term Repurchase Facilities	471	(235)	706
CMBS - Term Repurchase Facilities	(279)	(407)	128
Trust Certificates - Term Repurchase Facilities	755	768	(13)
CMBS - Short Term Repurchase Agreements	723	723	—
Hedging	33	33	—
Total increase (decrease) in interest expense	130	(1,835)	1,965
Net increase (decrease) in net interest income	$356	$1,901	$(1,545)

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The following table presents the average net yield and average cost of funds for the three months ended March 31, 2018 and 2017 (in thousands, except percentages):

	For the Three Months Ended March 31, 2018			For the Three Months Ended March 31, 2017		
	Average Balance	Interest Income (Expense)	Average Net Yield (Cost of Funds)	Average Balance	Interest Income (Expense)	Average Net Yield (Cost of Funds)
Interest-earning assets						
CRE loans	$1,393,729	$22,383	6.49 %	$1,466,259	$21,533	5.94 %
Securities	216,870	3,456	6.51 %	102,065	2,308	7.20 %
Other	25,156	118	0.48 %	50,655	1,630	12.90 %
Total interest income/average net yield	1,635,755	25,957	6.40 %	1,618,979	25,471	6.24 %
Interest-bearing liabilities						
Collateralized by:						
CRE whole loans	685,064	(7,260)	(4.30)%	830,089	(8,172)	(3.99)%
CMBS	118,783	(987)	(3.37)%	76,623	(543)	(2.87)%
General corporate debt:						