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Ares Commercial Real Estate Corp
Form 10-Q
November 01, 2017

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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission File No. 001-35517

ARES COMMERCIAL REAL ESTATE CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland 45-3148087

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

245 Park Avenue, 42nd Floor, New York, NY 10167

(Address of principal executive offices) (Zip Code)

(212) 750-7300

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a 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 7(a)(2)(B) of the Securities Act. ☒

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

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

Class	Outstanding at October 31, 2017
Common stock, \$0.01 par value	28,589,968

ARES COMMERCIAL REAL ESTATE CORPORATION

INDEX

Part I. Financial Information

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016 2

Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 (unaudited) 3

Consolidated Statement of Equity for the nine months ended September 30, 2017 (unaudited) 4

Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited) 5

Notes to Consolidated Financial Statements (unaudited) 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 29

Item 3. Quantitative and Qualitative Disclosures About Market Risk 40

Item 4. Controls and Procedures 42

Part II. Other Information

Item 1. Legal Proceedings 42

Item 1A. Risk Factors 42

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 42

Item 3. Defaults Upon Senior Securities 42

Item 4. Mine Safety Disclosures 42

Item 5. Other Information 42

Item 6. Exhibits 43

PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	As of September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash and cash equivalents (\$8 related to consolidated VIEs as of December 31, 2016)	\$28,245	\$47,270
Restricted cash	379	375
Loans held for investment (\$341,158 and \$21,514 related to consolidated VIEs, respectively)	1,543,261	1,313,937
Other assets (\$873 and \$203 of interest receivable related to consolidated VIEs, respectively)	15,583	12,121
Total assets	\$1,587,468	\$1,373,703
LIABILITIES AND EQUITY		
LIABILITIES		
Secured funding agreements	\$730,228	\$780,713
Secured term loan	151,761	149,878
Collateralized loan obligation securitization debt (consolidated VIE)	270,961	—
Due to affiliate	2,567	2,699
Dividends payable	7,717	7,406
Other liabilities (\$374 of interest payable related to consolidated VIEs as of September 30, 2017)	3,734	3,334
Total liabilities	1,166,968	944,030
Commitments and contingencies (Note 5)		
EQUITY		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at September 30, 2017 and December 31, 2016, and 28,582,690 and 28,482,756 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	283	283
Additional paid-in capital	420,428	420,056
Accumulated deficit	(211)	(1,310)
Total stockholders' equity	420,500	419,029
Non-controlling interests in consolidated VIEs	—	10,644
Total equity	420,500	429,673
Total liabilities and equity	\$1,587,468	\$1,373,703

See accompanying notes to consolidated financial statements.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net interest margin:				
Interest income from loans held for investment	\$28,551	\$ 20,776	\$72,321	\$ 58,455
Interest expense	(13,825)	(9,018)	(36,845)	(25,958)
Net interest margin	14,726	11,758	35,476	32,497
Expenses:				
Management and incentive fees to affiliate	1,554	1,690	5,020	4,380
Professional fees	350	678	1,169	1,703
General and administrative expenses	724	690	2,006	2,099
General and administrative expenses reimbursed to affiliate	986	860	2,883	2,417
Total expenses	3,614	3,918	11,078	10,599
Income from continuing operations before income taxes	11,112	7,840	24,398	21,898
Income tax expense, including excise tax	54	161	149	168
Net income from continuing operations	11,058	7,679	24,249	21,730
Net income from operations of discontinued operations, net of income taxes	—	1,866	—	4,221
Gain on sale of discontinued operations	—	10,196	—	10,196
Net income attributable to ACRE	11,058	19,741	24,249	36,147
Less: Net income attributable to non-controlling interests	—	(1,299)	(25)	(3,876)
Net income attributable to common stockholders	\$11,058	\$ 18,442	\$24,224	\$ 32,271
Basic earnings per common share:				
Continuing operations	\$0.39	\$ 0.22	\$0.85	\$ 0.63
Discontinued operations	—	0.42	—	0.51
Net income	\$0.39	\$ 0.65	\$0.85	\$ 1.13
Diluted earnings per common share:				
Continuing operations	\$0.39	\$ 0.22	\$0.85	\$ 0.63
Discontinued operations	—	0.42	—	0.51
Net income	\$0.39	\$ 0.65	\$0.85	\$ 1.13
Weighted average number of common shares outstanding:				
Basic weighted average shares of common stock outstanding	28,481,292	28,428,766	28,475,362	28,462,143
Diluted weighted average shares of common stock outstanding	28,582,690	28,513,137	28,537,723	28,536,921
Dividends declared per share of common stock	\$0.27	\$ 0.26	\$0.81	\$ 0.78

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY

(in thousands, except share and per share data)

(unaudited)

	Common Stock		Additional	Accumulated	Total	Non-Controlling	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity	Interests	Equity
Balance at December 31, 2016	28,482,756	\$ 283	\$ 420,056	\$ (1,310)	\$ 419,029	\$ 10,644	\$ 429,673
Stock based compensation	99,934	—	372	—	372	—	372
Net income	—	—	—	24,224	24,224	25	24,249
Dividends declared	—	—	—	(23,125)	(23,125)	—	(23,125)
Contributions from non-controlling interests	—	—	—	—	—	12	12
Distributions to non-controlling interests	—	—	—	—	—	(10,681)	(10,681)
Balance at September 30, 2017	28,582,690	\$ 283	\$ 420,428	\$ (211)	\$ 420,500	\$ —	\$ 420,500

See accompanying notes to consolidated financial statements.

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

	For the nine months ended September 30,	
	2017	2016
	(unaudited)	(unaudited)
Operating activities:		
Net income	\$24,249	\$ 36,147
Adjustments to reconcile net income to net cash provided by (used in) operating activities (inclusive of amounts related to discontinued operations):		
Amortization of deferred financing costs	5,596	4,782
Change in mortgage banking activities	—	(10,386)
Change in fair value of mortgage servicing rights	—	6,457
Accretion of deferred loan origination fees and costs	(4,893)	(3,717)
Provision for loss sharing	—	(146)
Cash paid to settle loss sharing obligations	—	(681)
Originations of mortgage loans held for sale	—	(639,413)
Sale of mortgage loans held for sale to third parties	—	571,714
Stock-based compensation	372	202
Gain on sale of discontinued operations	—	(10,196)
Depreciation expense	—	167
Deferred tax expense	—	2,049
Changes in operating assets and liabilities:		
Restricted cash	(4)	1,411
Other assets	(1,988)	39,706
Due to affiliate	(132)	284
Other liabilities	692	1,805
Net cash provided by (used in) operating activities	23,892	185
Investing activities:		
Issuance of and fundings on loans held for investment	(504,554)	(782,364)
Principal repayment of loans held for investment	273,985	444,272
Receipt of origination fees	6,138	6,009
Proceeds from sale of discontinued operations, net of cash sold	—	89,981
Purchases of other assets	—	(354)
Net cash provided by (used in) investing activities	(224,431)	(242,456)
Financing activities:		
Proceeds from secured funding agreements	533,880	1,288,698
Repayments of secured funding agreements	(584,365)	(932,371)
Payment of secured funding costs	(7,445)	(4,221)
Proceeds from issuance of debt of consolidated VIEs	272,927	—
Repayments of debt of consolidated VIEs	—	(197,445)
Proceeds from warehouse lines of credit	—	863,382
Repayments of warehouse lines of credit	—	(795,684)
Proceeds from secured term loan	—	80,000
Repurchase of common stock	—	(1,436)
Dividends paid	(22,814)	(21,994)
Contributions from non-controlling interests	12	11

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Distributions to non-controlling interests	(10,681)	(3,896)
Net cash provided by (used in) financing activities	181,514	275,044
Change in cash and cash equivalents	(19,025)	32,773
Cash and cash equivalents of continuing operations, beginning of period	47,270	5,066
Cash and cash equivalents of discontinued operations, beginning of period	—	3,929
Cash and cash equivalents, end of period	\$28,245	\$ 41,768
Cash and cash equivalents of continuing operations, end of period	\$28,245	\$ 41,768
Cash and cash equivalents of discontinued operations, end of period	\$—	\$—

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2017

(in thousands, except share and per share data, percentages and as otherwise indicated)
(unaudited)

1. ORGANIZATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with United States generally accepted accounting principles ("GAAP") and include the accounts of the Company, the consolidated variable interest entities ("VIEs") that the Company controls and of which the Company is the primary beneficiary, and the Company's wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the Company's results of

operations and financial condition as of and for the periods presented. All intercompany balances and transactions have been eliminated.

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

Discontinued Operations

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

Variable Interest Entities

The Company evaluates all of its interests in VIEs for consolidation. When the Company's interests are determined to be variable interests, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. FASB ASC Topic 810, Consolidation, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. The Company considers its variable interests, as well as any variable interests of its related parties in making this determination. Where both of these factors are present, the Company is deemed to be the primary beneficiary and it consolidates the VIE. Where either one of these factors is not present, the Company is not the primary beneficiary and it does not consolidate the VIE.

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

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

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

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

Loans Held for Investment

The Company originates CRE debt and related instruments generally to be held for investment. Loans that are held for investment are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, the Company will record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate.

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

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

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

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

Debt Issuance Costs

Debt issuance costs under the Company's indebtedness are capitalized and amortized over the terms of the respective debt instrument. Debt issuance costs related to debt securitizations are capitalized and amortized over the term of the underlying loans using the effective interest method. When an underlying loan is prepaid in a debt securitization and the outstanding principal balance of the securitization debt is reduced, the related unamortized debt issuance costs are

charged to expense based on a pro rata share of the debt issuance costs being allocated to the specific loans that were prepaid. Amortization of debt issuance costs is included within interest expense in the Company's consolidated statements of operations while the unamortized balance on (i) Secured Funding Agreements (each individually defined in Note 4 included in these consolidated financial statements) is included within other assets and both (ii) the Secured Term Loan (defined in Note 4 included in these consolidated financial statements) and (iii) debt securitizations are included as a reduction to the carrying amount of the liability, in the Company's consolidated balance sheets.

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

Revenue Recognition

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

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

	For the three months ended September 30, 2017		For the nine months ended September 30, 2016	
Interest income from loans held for investment, excluding non-controlling interests	\$28,551	\$19,473	\$72,286	\$54,573
Interest income from non-controlling interest investment held by third parties	—	1,303	35	3,882
Interest income from loans held for investment	\$28,551	\$20,776	\$72,321	\$58,455

Net Interest Margin and Interest Expense

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

	For the three months ended September 30, 2017		For the nine months ended September 30, 2016	
Secured funding agreements and securitizations debt	\$10,312	\$6,914	\$26,635	\$20,339
Secured term loan	3,513	2,104	10,210	5,619
Interest expense	\$13,825	\$9,018	\$36,845	\$25,958

Comprehensive Income

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

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations, which clarifies the guidance in ASU No. 2014-09 and has the same effective date as the original standard. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, an update on identifying performance obligations and

accounting for licenses of intellectual property. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which includes amendments for enhanced clarification of the guidance. In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Revenue from Contracts with Customers (Topic 606), the amendments in this update are of a similar nature to the items typically addressed in the technical corrections and improvements project. Additionally, in February

2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, an update on clarifying that a financial asset is within the scope of Subtopic 610-20 if it is deemed an “in-substance non-financial asset.” The application of this guidance is not expected to have a material impact on the Company’s consolidated financial statements, primarily because the majority of the Company’s revenue is accounted for under FASB ASC Topic 310, Receivables, which is scoped out of this standard.

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

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

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

3. LOANS HELD FOR INVESTMENT

As of September 30, 2017, the Company’s portfolio totaled 36 loans held for investment, excluding 55 loans that were repaid or sold since inception. The aggregate originated commitment under these loans at closing was approximately \$1.7 billion and outstanding principal was \$1.6 billion as of September 30, 2017. During the nine months ended September 30, 2017, the Company funded approximately \$504.6 million of outstanding principal and received repayments of \$263.4 million of outstanding principal, excluding non-controlling interests held by third parties, as described in more detail in the tables below. Such investments are referred to herein as the Company’s “investment portfolio.” As of September 30, 2017, 89.3% of the Company’s loans have London Interbank Offered Rate (“LIBOR”) floors, with a weighted average floor of 0.61%, calculated based on loans with LIBOR floors. References to LIBOR or “L” are to 30-day LIBOR (unless otherwise specifically stated).

The Company’s investments in loans held for investment are accounted for at amortized cost. The following tables summarize the Company’s loans held for investment as of September 30, 2017 and December 31, 2016 (\$ in

thousands):

10

As of September 30, 2017

	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Minimum Loan Borrowing Spread (2)	Weighted Average Unleveraged Effective Yield (3)	Weighted Average Remaining Life (Years)
Senior mortgage loans	\$1,483,786	\$1,492,488	4.8 %	6.0 %	1.7
Subordinated debt and preferred equity investments	59,475	60,276	10.3 %	11.4 %	3.2
Total loans held for investment portfolio	\$1,543,261	\$1,552,764	5.0 %	6.2 %	1.8

As of December 31, 2016

	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Minimum Loan Borrowing Spread (2)	Weighted Average Unleveraged Effective Yield (3)	Weighted Average Remaining Life (Years)
Senior mortgage loans	\$1,181,569	\$1,188,425	4.7 %	5.7 %	1.8
Subordinated debt and preferred equity investments	121,828	123,230	10.7 %	11.5 %	4.1
Total loans held for investment portfolio (excluding non-controlling interests held by third parties) (4)	\$1,303,397	\$1,311,655	5.2 %	6.3 %	2.0

(1) The difference between the Carrying Amount and the Outstanding Principal amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs.

Minimum Loan Borrowing Spread is equal to (a) for floating rate loans, the margin above the applicable index rate (e.g., LIBOR) plus floors, if any, on such applicable index rates, and (b) for fixed rate loans, the applicable interest rate.

Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premium or discount) and assumes no dispositions, early prepayments or defaults. The Total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of September 30, 2017 and December 31, 2016 as weighted by the Outstanding Principal balance of each loan.

(4) The table above as of December 31, 2016 excludes non-controlling interests held by third parties. A reconciliation of the Carrying Amount of loans held for investment portfolio, excluding non-controlling interests held by third parties, to the Carrying Amount of loans held for investment, as included in the Company's consolidated balance sheets, is presented below.

A reconciliation of the Company's loans held for investment portfolio, excluding non-controlling interests held by third parties, to the Company's loans held for investment as included in its consolidated balance sheets is as follows (\$ in thousands):

As of December 31,
2016

	Carrying Amount	Outstanding Principal
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	\$ 1,303,397	\$ 1,311,655
Non-controlling interest investment held by third parties	10,540	10,540
Loans held for investment	\$ 1,313,937	\$ 1,322,195

As of September 30, 2017, there were no non-controlling interests held by third parties.

A more detailed listing of the Company's investment portfolio based on information available as of September 30, 2017 is as follows (\$ in millions, except percentages):

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Loan Type	Location	Outstanding Principal (1)	Carrying Amount (1)	Interest Rate	Unleveraged Effective Yield (2)	Maturity Date (3)	Payment Terms (4)	
Senior Mortgage Loans:								
Various	(5) Diversified	\$159.2	\$158.5	L+4.35%	6.2%	Oct 2018(5)	I/O	
Office	TX	96.0	95.0	L+3.60%	5.3%	July 2020	I/O	
Multifamily	FL	89.7	89.4	L+4.75%	6.5%	Sep 2019	I/O	
Various	(6) Diversified	82.3	81.9	L+4.75%	6.6%	Oct 2018(6)	I/O	
Retail	IL	75.9	75.9	L+4.00%	5.7%	Nov 2017(7)	I/O	
Mixed-use	NY	65.6	65.3	L+4.16%	5.8%	Apr 2019	I/O	
Office	TX	63.9	63.5	L+4.30%	6.4%	Dec 2018	I/O	
Office	CA	57.7	57.3	L+4.40%	6.2%	Aug 2019	I/O	
Office	IL	55.9	55.4	L+3.99%	5.7%	Aug 2019	I/O	
Multifamily	FL	53.8	53.3	L+3.65%	5.3%	Mar 2021	I/O	
Office	CO	53.4	52.8	L+4.15%	5.8%	June 2021	I/O	
Office	NJ	48.4	47.9	L+4.65%	6.5%	July 2020	I/O	
Multifamily	FL	45.4	45.2	L+4.75%	6.5%	Sep 2019	I/O	
Student Housing	CA	41.8	41.4	L+3.95%	5.7%	July 2020	I/O	
Student Housing	NC	38.4	38.0	L+4.75%	7.0%	Feb 2019	I/O	
Hotel	NY	37.3	37.2	L+4.75%	6.4%	June 2018	I/O	
Hotel	MI	35.2	35.2	L+4.15%	5.4%	July 2018 (8)	I/O	
Multifamily	MN	34.1	33.9	L+4.75%	6.5%	Oct 2019	I/O	
Industrial	OH	32.3	32.3	L+4.20%	5.7%	May 2018	P/I	(9)
Office	OR	31.5	31.4	L+3.75%	5.4%	Oct 2018	I/O	
Multifamily	NY	31.4	31.2	L+4.55%	6.3%	Feb 2019	I/O	
Multifamily	NY	29.4	29.3	L+3.75%	5.4%	Oct 2018 (10)	I/O	(9)
Multifamily	TX	27.5	27.3	L+3.20%	4.9%	Oct 2020	I/O	
Multifamily	TX	26.3	26.2	L+3.80%	5.2%	Jan 2019	I/O	
Multifamily	CA	25.1	24.9	L+3.85%	5.6%	July 2020	I/O	
Student Housing	AL	24.1	23.9	L+4.45%	6.2%	Feb 2020	I/O	
Multifamily	FL	21.9	21.8	L+4.25%	6.2%	Feb 2019	I/O	
Multifamily	CA	21.6	21.5	L+3.90%	5.5%	Mar 2021	I/O	
Office	CO	19.6	19.6	L+3.95%	5.6%	Dec 2017	I/O	
Office	PA	19.6	19.5	L+4.70%	6.4%	Mar 2020	I/O	
Office	FL	18.4	18.2	L+4.30%	6.1%	Apr 2020	I/O	
Multifamily	NY	16.3	16.3	L+3.85%	5.4%	Nov 2017	I/O	
Multifamily	CA	13.5	13.3	L+3.80%	5.5%	July 2020	I/O	

Subordinated Debt
and Preferred Equity

Investments:

Multifamily	NY	33.3	33.2	L+8.07%	9.6%	Jan 2019	I/O	
Office	NJ	17.0	16.3	12.00%	12.8%	Jan 2026	I/O	(9)
Office	TX	10.0	10.0	14.00%	15.2%	Dec 2018	I/O	
Total/Weighted Average		\$1,552.8	\$1,543.3		6.2%			

- (1) The difference between the Carrying Amount and the Outstanding Principal amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs. Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premium or discount) and assumes no dispositions, early prepayments or defaults. Unleveraged Effective Yield for each loan is
- (2) calculated based on LIBOR as of September 30, 2017 or the LIBOR floor, as applicable. The Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of September 30, 2017 as weighted by the Outstanding Principal balance of each loan. Certain loans are subject to contractual extension options that vary between one and two 12-month extensions and may be subject to performance based or other conditions as stipulated in the loan agreement. Actual maturities may
- (3) differ from contractual maturities stated herein as certain borrowers may have the right to prepay with or without paying a prepayment penalty. The Company may also extend contractual maturities and amend other terms of the loans in connection with loan modifications.
- (4) I/O = interest only, P/I = principal and interest. The senior mortgage loan is collateralized by a portfolio of self-storage, retail and office properties. The total principal balance of the senior mortgage loan is \$159.2 million as of September 30, 2017, of which \$122.2 million
- (5) is allocable to the self-storage properties and \$37.0 million is allocable to the retail and office properties. The borrower was obligated to repay an amount equal to \$42.5 million with respect to the retail and office properties (which includes

\$37.0 million of allocated loan amount and \$5.5 million of release premium) in September 2017, which is prior to the initial maturity date of the loan in October 2018. See below in Note 3 included in these consolidated financial statements for further discussion of this loan.

The senior mortgage loan is collateralized by a portfolio of self-storage properties and one retail property.

The total principal balance of the senior mortgage loan is \$82.3 million as of September 30, 2017, of which \$70.2 million is allocable to the self-storage properties and \$12.1 million is allocable to the retail property.

(6) The borrower was obligated to repay an amount equal to \$13.9 million with respect to the retail property (which includes \$12.1 million of allocated loan amount and \$1.8 million of release premium) in September 2017, which is prior to the initial maturity date of the loan in October 2018. See below in Note 3 included in these consolidated financial statements for further discussion of this loan.

(7) In July 2017, the Company and the borrower entered into an amendment to the loan agreement, which extended the maturity date on the senior Illinois loan from August 2017 to November 2017.

(8) In April 2017, the borrower exercised a one-year extension option in accordance with the loan agreement, which extended the maturity date on the senior Michigan loan to July 2018.

In May 2017, amortization began on the senior Ohio loan, which had an outstanding principal balance of \$32.3 million as of September 30, 2017. In October 2017, amortization will begin on the senior New York loan, which had an outstanding principal balance of \$29.4 million as of September 30, 2017. In February 2021, amortization will begin on the subordinated New Jersey loan, which had an outstanding principal balance of \$17.0 million as of September 30, 2017. The remainder of the loans in the Company's portfolio are non-amortizing through their primary terms.

(10) In August 2017, the borrower exercised a one-year extension option in accordance with the loan agreement, which extended the maturity date on the senior New York loan to October 2018.

The Company has made, and may continue to make, modifications to loans, including loans that are in default. Loan terms that may be modified include interest rates, required prepayments, asset release prices, maturity dates, covenants, principal amounts and other loan terms. The terms and conditions of each modification vary based on individual circumstances and will be determined on a case by case basis.

For the nine months ended September 30, 2017, the activity in the Company's loan portfolio was as follows (\$ in thousands):

Balance at December 31, 2016	\$1,313,937
Initial funding	491,561
Origination fees and discounts, net of costs	(6,138)
Additional funding	12,993
Amortizing payments	(251)
Loan payoffs	(273,734)
Origination fee accretion	4,893
Balance at September 30, 2017	\$1,543,261

As of September 30, 2017, the following two senior mortgage loans, which were made to affiliated borrowers controlled indirectly by the same individual, are each in an event of default.

As of September 30, 2017, the \$159.2 million senior mortgage loan collateralized by a portfolio of self-storage, retail and office properties is in payment default due to the failure of the borrower to repay an amount equal to \$42.5 million with respect to the retail and office properties (which includes \$37.0 million of allocated loan amount and \$5.5 million of release premium). This payment amount was due in September 2017, which is prior to the initial maturity date of the loan in October 2018. The Company evaluated this loan for impairment and concluded that no impairment charge should be recognized as of September 30, 2017 and that this loan should not be placed on non-accrual status as of

September 30, 2017. This conclusion was based on the following: (1) the current estimated fair market value of the underlying collateral and applicable reserves, (2) the estimated cash flow from operations of the underlying collateral and (3) the recourse payment guarantee of up to \$40.2 million from an individual that is the indirect owner of the underlying collateral and an affiliate of the borrower. The estimated fair market value of the underlying collateral was determined using the income capitalization approach and comparable market sales approach. As of September 30, 2017, the loan is current on its interest payments.

As of September 30, 2017, the \$82.3 million senior mortgage loan collateralized by a portfolio of self-storage properties and one retail property is in payment default due to the failure of the borrower to repay an amount equal to \$13.9

million with respect to the retail property (which includes \$12.1 million of allocated loan amount and \$1.8 million of release premium). This payment amount was due in September 2017, which is prior to the initial maturity date of the loan in October 2018. The Company evaluated this loan for impairment and concluded that no impairment charge should be recognized as of September 30, 2017 and that this loan should not be placed on non-accrual status as of September 30, 2017. This conclusion was based on the following: (1) the current estimated fair market value of the underlying collateral and applicable reserves, (2) the estimated cash flow from operations of the underlying collateral and (3) the recourse payment guarantee of up to \$12.1 million from an individual that is the indirect owner of the underlying collateral and an affiliate of the borrower. The estimated fair market value of the underlying collateral was determined using the income capitalization approach and comparable market sales approach. As of September 30, 2017, the loan is current on its interest payments.

Except as described above, as of September 30, 2017, all loans were paying in accordance with their contractual terms. No impairment charges have been recognized during the three and nine months ended September 30, 2017 and 2016.

4. DEBT

Financing Agreements

The Company borrows funds, as applicable in a given period, under the Wells Fargo Facility, the Citibank Facility, the BAML Facility, the CNB Facility, the MetLife Facility, the UBS Facility and the U.S. Bank Facility (individually defined below and collectively, the “Secured Funding Agreements”) and the Secured Term Loan (as defined below). The Company refers to the Secured Funding Agreements and the Secured Term Loan as the “Financing Agreements.” The outstanding balance of the Financing Agreements in the table below are presented gross of debt issuance costs. As of September 30, 2017 and December 31, 2016, the outstanding balances and total commitments under the Financing Agreements consisted of the following (\$ in thousands):

	September 30, 2017		December 31, 2016		
	Outstanding	Total	Outstanding	Total	
	Balance	Commitment	Balance	Commitment	
Wells Fargo Facility	\$221,631	\$ 500,000	(1) \$218,064	\$ 325,000	
Citibank Facility	175,738	250,000	(2) 302,240	250,000	(2)
BAML Facility	56,320	125,000	77,679	125,000	
CNB Facility	—	50,000	—	50,000	
MetLife Facility	118,037	180,000	53,130	180,000	
UBS Facility	—	140,000	71,360	140,000	
U.S. Bank Facility	158,502	185,989	(3) 58,240	125,000	
Secured Term Loan	155,000	155,000	155,000	155,000	
Total	\$885,228	\$ 1,585,989	\$935,713	\$ 1,350,000	

- (1) In May 2017, the Company amended the Wells Fargo Facility (as defined below) to increase the facility’s commitment amount from \$325.0 million to \$500.0 million.
- (2) The Citibank Facility (as defined below) has an accordion feature that provides for an increase in the \$250.0 million commitment amount with respect to approved assets, as determined by Citibank, N.A. in its sole discretion.
- (3) In June 2017, the Company amended the U.S. Bank Facility (as defined below) to increase the facility’s commitment amount from \$125.0 million to \$186.0 million.

Some of the Company's Financing Agreements are collateralized by (i) assignments of specific loans, preferred equity or a pool of loans held for investment or loans held for sale owned by the Company, (ii) interests in the subordinated portion of the Company's securitization debt, or (iii) interests in wholly owned entity subsidiaries that hold the Company's loans held for investment. The Company is the borrower or guarantor under each of the Financing Agreements. Generally, the Company partially offsets interest rate risk by matching the interest index of loans held for investment with the Secured Funding Agreements used to fund them. The Company's Financing Agreements contain various affirmative and negative covenants, including negative pledges, and provisions regarding events of default that are normal and customary for similar financing arrangements.

Wells Fargo Facility

The Company is party to a master repurchase funding facility with Wells Fargo Bank, National Association (“Wells Fargo”) (the “Wells Fargo Facility”), which allows the Company to borrow up to \$500.0 million. Under the Wells Fargo Facility, the Company is permitted to sell, and later repurchase, certain qualifying senior commercial mortgage loans, A-Notes, pari passu participations in commercial mortgage loans and mezzanine loans under certain circumstances, subject to available collateral approved by Wells Fargo in its sole discretion. In May 2017, the Company amended the Wells Fargo Facility to increase the facility’s commitment amount from \$325.0 million to \$500.0 million and extend the initial maturity date to December 14, 2018. The initial maturity date of the Wells Fargo Facility is subject to two 12-month extensions, each of which may be exercised at the Company’s option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the Wells Fargo Facility to December 14, 2020. Advances under the Wells Fargo Facility accrue interest at a per annum rate equal to the sum of (i) one-month LIBOR plus (ii) a pricing margin range of 1.75% to 2.35%. The Company incurs a non-utilization fee of 25 basis points per annum on the average daily available balance of the Wells Fargo Facility to the extent less than 75% of the Wells Fargo Facility is utilized. For the three and nine months ended September 30, 2017, the Company incurred a non-utilization fee of \$148 thousand and \$240 thousand, respectively. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of \$132 thousand and \$278 thousand, respectively. The non-utilization fee is included within interest expense in the Company’s consolidated statements of operations.

Citibank Facility

The Company is party to a \$250.0 million master repurchase facility with Citibank, N.A. (“Citibank”) (the “Citibank Facility”). Under the Citibank Facility, the Company is permitted to sell and later repurchase certain qualifying senior commercial mortgage loans and A-Notes approved by Citibank in its sole discretion. The Citibank Facility has an accordion feature that provides for an increase in the \$250.0 million commitment amount with respect to approved assets, as determined by Citibank in its sole discretion. The initial maturity date of the Citibank Facility is December 10, 2018, subject to three 12-month extensions, each of which may be exercised at the Company’s option assuming no existing defaults under the Citibank Facility and applicable extension fees being paid, which, if all three were exercised, would extend the maturity date of the Citibank Facility to December 8, 2021. Advances under the Citibank Facility accrue interest at a per annum rate equal to one-month LIBOR plus a pricing margin range of 2.25% to 2.50%, subject to certain exceptions. Advances applicable to assets funded under the Citibank Facility prior to December 8, 2016 accrue interest at a per annum rate equal to one-month LIBOR plus a pricing margin range of 2.00% to 2.50%. The Company incurs a non-utilization fee of 25 basis points per annum on the average daily available balance of the Citibank Facility. For the three and nine months ended September 30, 2017, the Company incurred a non-utilization fee of \$36 thousand and \$118 thousand, respectively. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of \$3 thousand and \$95 thousand, respectively. The non-utilization fee is included within interest expense in the Company’s consolidated statements of operations.

BAML Facility

The Company is party to a \$125.0 million Bridge Loan Warehousing Credit and Security Agreement with Bank of America, N.A. (“Bank of America”) (the “BAML Facility”). Under the BAML Facility, the Company may obtain advances secured by eligible commercial mortgage loans collateralized by multifamily properties. Bank of America may approve the loans on which advances are made under the BAML Facility in its sole discretion. In May 2017, the Company amended the BAML Facility to extend the period during which the Company may request individual loans under the facility to May 24, 2018. Individual advances under the BAML Facility generally have a two-year maturity, subject to one 12-month extension at the Company’s option upon the satisfaction of certain conditions and applicable extension fees being paid. In addition, in May 2017, the final maturity date of individual loans under the BAML

Facility was extended to May 25, 2021. Advances under the BAML Facility accrue interest at a per annum rate equal to one-month LIBOR plus a spread ranging from 2.25% to 2.75% depending upon the type of asset securing such advance. The Company incurs a non-utilization fee of 12.5 basis points per annum on the average daily available balance of the BAML Facility to the extent less than 50% of the BAML Facility is utilized. For the three and nine months ended September 30, 2017, the Company incurred a non-utilization fee of \$11 thousand and \$42 thousand, respectively. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of \$20 thousand and \$52 thousand, respectively. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations. See Note 14 included in these consolidated financial statements for a subsequent event related to the BAML Facility.

CNB Facility

The Company is party to a \$50.0 million secured revolving funding facility with City National Bank (the “CNB Facility”). The Company is permitted to borrow funds under the CNB Facility to finance investments and for other working capital and general corporate needs. In March 2017, the Company amended the CNB Facility to extend the initial maturity date to March 11, 2018. The Company has two 12-month extensions, each of which may be exercised at the Company’s option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the CNB Facility to March 10, 2020. Advances under the CNB Facility accrue interest at a per annum rate equal to the sum of, at the Company’s option, either (a) LIBOR for a one, two, three, six or, if available to all lenders, 12-month interest period plus 3.00% or (b) a base rate (which is the highest of a prime rate, the federal funds rate plus 0.50%, or one-month LIBOR plus 1.00%) plus 1.25%; provided that in no event shall the interest rate be less than 3.00%. Unless at least 75% of the CNB Facility is used on average, unused commitments under the CNB Facility accrue unused line fees at the rate of 0.375% per annum. For the three and nine months ended September 30, 2017, the Company incurred a non-utilization fee of \$46 thousand and \$140 thousand, respectively. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of \$28 thousand and \$74 thousand, respectively. The non-utilization fee is included within interest expense in the Company’s consolidated statements of operations.

MetLife Facility

The Company and certain of its subsidiaries are party to a \$180.0 million revolving master repurchase facility with Metropolitan Life Insurance Company (“MetLife”) (the “MetLife Facility”), pursuant to which the Company may sell, and later repurchase, commercial mortgage loans meeting defined eligibility criteria which are approved by MetLife in its sole discretion. In August 2017, the Company amended the MetLife Facility to extend the initial maturity date to August 12, 2020. The initial maturity date of the MetLife Facility is subject to two 12-month extensions, each of which may be exercised at the Company’s option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the MetLife Facility to August 12, 2022. In addition, in August 2017, the Company decreased the interest rate on advances under the MetLife Facility to a per annum rate equal to one-month LIBOR plus a spread of 2.30%. Beginning in January 2018, the Company will incur a non-utilization fee of 25 basis points per annum on the average daily available balance of the MetLife Facility to the extent less than 65% of the MetLife Facility is utilized.

UBS Facility

The Company and certain of its subsidiaries are party to a \$140.0 million revolving master repurchase facility with UBS Real Estate Securities Inc. (“UBS”) (the “UBS Facility”), pursuant to which the Company may sell, and later repurchase, commercial mortgage loans and, under certain circumstances, other assets meeting defined eligibility criteria that are approved by UBS in its sole discretion. The maturity date of the UBS Facility is October 21, 2018, subject to annual extensions in UBS’ sole discretion. The interest rate on advances under the UBS Facility is one-month LIBOR plus (a) 1.88% per annum, for assets that are subject to an advance for one year or less, (b) 2.08% per annum, for assets that are subject to an advance in excess of one year but less than two years and (c) 2.28% per annum, for assets that are subject to an advance for greater than two years.

U.S. Bank Facility

The Company and certain of its subsidiaries are party to a \$186.0 million master repurchase and securities contract with U.S. Bank National Association (“U.S. Bank”) (the “U.S. Bank Facility”). Pursuant to the U.S. Bank Facility, the Company is permitted to sell, and later repurchase, eligible commercial mortgage loans collateralized by retail, office, mixed-use, multifamily, industrial, hospitality, student housing, manufactured housing or self-storage properties. U.S.

Bank may approve the mortgage loans that are subject to the U.S. Bank Facility in its sole discretion. In June 2017, the Company amended the U.S. Bank Facility to increase the facility's commitment amount from \$125.0 million to \$186.0 million and extend the initial maturity date to July 31, 2020. The initial maturity date of the U.S. Bank Facility is subject to two 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which if both were exercised, would extend the maturity date of the U.S. Bank Facility to July 31, 2022. Advances under the U.S. Bank Facility generally accrue interest at a per annum rate equal to one-month LIBOR plus a spread of 2.25%, unless otherwise agreed between U.S. Bank and the Company, depending upon the mortgage loan sold to U.S. Bank in the applicable transaction. The Company incurs a non-utilization fee of 25 basis points per annum on the average daily available balance of the U.S. Bank Facility to the extent less than 50% of the U.S. Bank Facility is utilized. For the three months ended September 30, 2017, the Company did not incur a non-utilization fee. For the nine months ended September 30, 2017, the Company incurred a non-utilization fee of \$83 thousand. For both the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of \$8 thousand. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

Secured Term Loan

The Company and certain of its subsidiaries are party to a \$155.0 million Credit and Guaranty Agreement with Highbridge Principal Strategies, LLC, as administrative agent, and DBD Credit Funding LLC, as collateral agent (the “Secured Term Loan”). The Company made an initial draw of \$75.0 million on December 9, 2015, the closing date. The Company drew the remaining \$80.0 million of the Secured Term Loan on September 9, 2016. The Secured Term Loan bears interest at a per annum rate of LIBOR plus 6.0% with a LIBOR floor of 1.0% on drawn amounts. The Secured Term Loan has a maturity date of December 9, 2018. The Company was subject to a monthly non-utilization fee equal to 1.0% per annum on the unused commitment amount during the nine-month commitment period following the closing date for which the \$80.0 million of the Secured Term Loan was not utilized. For the three and nine months ended September 30, 2017, the Company did not incur a non-utilization fee. For the three and nine months ended September 30, 2016, the Company incurred a non-utilization fee of \$156 thousand and \$560 thousand, respectively. The non-utilization fee is included within interest expense in the Company’s consolidated statements of operations. The total original issue discount on the Secured Term Loan draws was \$2.3 million, which represents a discount to the debt cost to be amortized into interest expense using the effective interest method over the term of the Secured Term Loan. The estimated per annum effective interest rate of the Secured Term Loan, which is equal to LIBOR (subject to a floor of 1.0%) plus the stated rate of 6.0% plus the accretion of the original issue discount and associated costs, was 8.7% and 8.6% for the three and nine months ended September 30, 2017, respectively. For both the three and nine months ended September 30, 2016, the estimated per annum effective interest rate was 8.5%.

5. COMMITMENTS AND CONTINGENCIES

As of September 30, 2017 and December 31, 2016, the Company had the following commitments to fund various senior mortgage loans, subordinated debt investments, as well as preferred equity investments accounted for as loans held for investment (\$ in thousands):

	As of	
	September 30, 2017	December 31, 2016
Total commitments	\$1,651,467	\$1,380,805
Less: funded commitments	(1,552,764)	(1,311,655)
Total unfunded commitments	\$98,703	\$69,150

The Company from time to time may be party to litigation relating to claims arising in the normal course of business. As of September 30, 2017, the Company is not aware of any legal claims that could materially impact its business, financial condition or results of operations.

6. EQUITY

Stock Buyback Program

In May 2015, the Company announced that the Company’s board of directors authorized the Company to repurchase up to \$20.0 million of the Company’s outstanding common stock over a period of one year (the “Stock Buyback Program”). In February 2016, the Company’s board of directors increased the size of the existing \$20.0 million Stock Buyback Program to \$30.0 million and extended the Stock Buyback Program through March 31, 2017, which was not extended.

Common Stock

There were no shares issued in public or private offerings for the three and nine months ended September 30, 2017. See “Equity Incentive Plan” below for shares issued under the plan.

Equity Incentive Plan

On April 23, 2012, the Company adopted an equity incentive plan (the “2012 Equity Incentive Plan”). Pursuant to the 2012 Equity Incentive Plan, the Company may grant awards consisting of restricted shares of the Company’s common stock, restricted stock units and/or other equity-based awards to the Company’s outside directors, employees, officers, ACREM and other eligible awardees under the plan, subject to an aggregate limitation of 690,000 shares of common stock (7.5% of the issued and outstanding shares of the Company’s common stock immediately after giving effect to the issuance of the shares sold in the IPO). Any restricted shares of the Company’s common stock and restricted stock units will be accounted for under

FASB ASC Topic 718, Compensation—Stock Compensation, resulting in share-based compensation expense equal to the grant date fair value of the underlying restricted shares of common stock or restricted stock units.

Restricted stock grants generally vest ratably over a one to four year period from the vesting start date. The grantee receives additional compensation for each outstanding restricted stock grant, classified as dividends paid, equal to the per-share dividends received by common stockholders.

The following table details the restricted stock grants awarded as of September 30, 2017:

Grant Date	Vesting Start Date	Shares Granted
May 1, 2012	July 1, 2012	35,135
June 18, 2012	July 1, 2012	7,027
July 9, 2012	October 1, 2012	25,000
June 26, 2013	July 1, 2013	22,526
November 25, 2013	November 25, 2016	30,381
January 31, 2014	August 31, 2015	48,273
February 26, 2014	February 26, 2014	12,030
February 27, 2014	August 27, 2014	22,354
June 24, 2014	June 24, 2014	17,658
June 24, 2015	July 1, 2015	25,555
April 25, 2016	July 1, 2016	10,000
June 27, 2016	July 1, 2016	24,680
April 25, 2017	April 25, 2018	81,710
June 7, 2017	July 1, 2017	18,224
Total		380,553

The following tables summarize the (i) non-vested shares of restricted stock and (ii) the vesting schedule of shares of restricted stock for the Company's directors and officers as of September 30, 2017:

Schedule of Non-Vested Share and Share Equivalents

	Restricted Stock Grants—Directors	Restricted Stock Grants—Officers	Total
Balance at December 31, 2016	21,514	—	21,514
Granted	18,224	81,710	99,934
Vested	(20,232)	—	(20,232)
Forfeited	—	—	—
Balance at September 30, 2017	19,506	81,710	101,216

Future Anticipated Vesting Schedule

	Restricted Stock Grants—Directors	Restricted Stock Grants—Officers	Total
2017	5,390	—	5,390
2018	12,448	27,237	39,685
2019	1,668	27,237	28,905
2020	—	27,236	27,236

2021 —	—	—
Total 19,506	81,710	101,216

18

Non-Controlling Interests

The non-controlling interests held by third parties in the Company's consolidated balance sheets represented the equity interests in a limited liability company, ACRC KA Investor LLC ("ACRC KA") that were not owned by the Company. A portion of ACRC KA's consolidated equity and net income were allocated to these non-controlling interests held by third parties based on their pro-rata ownership of ACRC KA. As of December 31, 2016, ACRC KA's total equity was \$21.7 million, of which \$11.1 million was owned by the Company and \$10.6 million was allocated to non-controlling interests held by third parties. As of September 30, 2017, the equity interests in ACRC KA held by the Company and third parties had been repaid in full and as such, there was no equity outstanding that was allocated to non-controlling interests held by third parties. See Note 12 included in these consolidated financial statements for more information on ACRC KA.

7. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted earnings per common share from continuing operations and discontinued operations for the three and nine months ended September 30, 2017 and 2016 (\$ in thousands, except share and per share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net income from continuing operations, less non-controlling interests	\$11,058	\$ 6,380	\$24,224	\$ 17,854
Net income from discontinued operations, including gain on sale of discontinued operations	\$—	\$ 12,062	\$—	\$ 14,417
Divided by:				
Basic weighted average shares of common stock outstanding:	28,481,298	28,428,766	28,475,368	28,462,143
Non-vested restricted stock	101,392	84,371	62,354	74,778
Diluted weighted average shares of common stock outstanding:	28,582,690	28,513,137	28,537,722	28,536,921
Basic earnings per common share:				
Continuing operations	\$0.39	\$ 0.22	\$0.85	\$ 0.63
Discontinued operations	—	0.42	—	0.51
Net income	\$0.39	\$ 0.65	\$0.85	\$ 1.13
Diluted earnings per common share:				
Continuing operations	\$0.39	\$ 0.22	\$0.85	\$ 0.63
Discontinued operations	—	0.42	—	0.51
Net income	\$0.39	\$ 0.65	\$0.85	\$ 1.13

8. INCOME TAX

The Company wholly owns ACRC Lender W TRS LLC and ACRC Lender U TRS LLC, which are taxable REIT subsidiaries ("TRS") formed in order to issue and hold certain loans intended for sale. The Company also wholly owns ACRC 2017-FL3 TRS LLC, which is a TRS formed in order to hold a portion of the CLO Securitization (as defined below) to the extent it generates excess inclusion income.

The income tax provision for the Company and the TRSs consisted of the following for the three and nine months ended September 30, 2017 and 2016 (\$ in thousands):

	For the three months ended September 30, 2017	2016	For the nine months ended September 30, 2017	2016
Current\$	4			